



## Xtep International Holdings Limited

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

# Xtep Announces 2020 Interim Results Revenue Reaches RMB3,679 Million Core Xtep Brand Delivers Stable Business Performance Amid Unprecedented Challenges

### Highlights

- Core Xtep brand exhibited relatively stable performance, with its revenue declined by 4.6% to RMB3,201.0 million (1H2019: RMB3,356.9 million) against the backdrop of the coronavirus outbreak in Mainland China in the first half of 2020
- Incorporating the revenue contributions from the acquisition and joint venture, the Group's revenue reached RMB3,679.1 million
- Operating profit of the Group declined by 30.2% to RMB500.7 million (1H2019: RMB 717.3 million)
- Profit attributable to ordinary equity holders was RMB247.9 million (1H2019: RMB463.0 million)
- Balance sheet remained healthy, with net cash and cash equivalents of RMB2,162.7 million
- Proposed interim dividend of HK6.5 cents (1H2019: HK12.5 cents) per Share, equivalent to a payout ratio of 60.0% (1H2019: 59.3%)
- As at 30 June 2020, there were 6,124 Xtep branded stores mainly operated by authorized distributors of the Group in Mainland China and overseas
- 12 Saucony stores and one Merrell store were launched in Mainland China in the first half of 2020, more store openings for the two brands are in the pipeline to deliver more enjoyable customer experiences in the second half of 2020
- Ongoing rebranding process for K-Swiss and strived to kick off the self-operated store openings of Palladium in Mainland China in 2020

28 August 2020, 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 2020 (“1H2020” or “the Period”).

The unexpected coronavirus pandemic posed tough challenges to the Group's financial performance in the first half of 2020. Revenue of the core Xtep brand slightly decreased by 4.6% to RMB3,201.0 million (1H2019: RMB3,356.9 million). Incorporating the revenue contribution from the acquisition and joint venture during the Period, the Group's revenue reached RMB3,679.1 million (1H2019: RMB3,356.9 million). Gross profit margin of the core Xtep brand was 40.5% (1H2019: 44.6%). The Group's operating profit reached RMB500.7 million (1H2019: RMB717.3 million). Profit attributable to ordinary equity holders of the Company was RMB247.9 million (1H2019: RMB463.0 million). Basic earnings per Share amounted to RMB10.1 cents (1H2019: RMB20.2 cents).

The Board has declared an interim dividend of HK6.5 cents (1H2019: HK12.5 cents) per Share, with an option to receive scrip shares in lieu of cash, which is equivalent to a payout ratio of 60.0% (1H2019: 59.3%).

**Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited**, said, “We faced unprecedented challenges created by the coronavirus pandemic in the first half of 2020. In response to the pandemic, we proactively diverged our sales to the e-commerce platforms of our core Xtep

brand and encouraged distributors to resort to new cost-effective sales channels, such as private traffic, to counteract the reduction of foot traffic in the offline retail stores. Sales from private traffic contributed eminently to the retail sales of the core Xtep brand in the first half of 2020. The Group's retail sales performance demonstrated resilience with noticeable signs of recovery manifested in the second quarter of 2020 following our swift adaptations, coupled with the stringent containment measures adopted by the Chinese government to prevent the transmission of the virus and the stimulus initiatives to spur consumption amid the pandemic. Looking ahead, we believe that the pandemic will further increase the health awareness among Chinese people, and thus we remain positive about our long-term business development and the prospects of the sportswear industry in Mainland China. We anticipate that the Group's business should gradually improve in the second half of 2020 and 2021."

## **Business Review**

### **Mass Market**

#### **Xtep**

##### *Product innovations*

Adhering to the core Xtep brand's mission to offer value-for-money professional sportswear products to all levels of athletes in the mass market, the Group continued to increase its effort in product innovation. The Group's first carbon fiber professional running shoe, RC160X, has found wide appeal among the running community and garnered the 2020 Editors' Choice Award and Best Buy Award in Mainland China from Runner's World, one of the most influential running magazines in the world. Seeing its success, the Group upgraded the model and released the Ultra Fast collection in June 2020, which combines top-notch technologies and functions ideal for runners of different abilities to realize breakthroughs in their top speed. In addition, the Group announced its collaboration with Shaolin Temple at Mount Song in June 2020 to appeal to the younger generation. As the first sportswear brand to cooperate with Shaolin Temple, the Group is dedicated to integrating Chinese sports spirit with Shaolin Kung Fu Culture to preserve and promote China's intangible cultural heritage. Furthermore, Xtep introduced the "cultivated garment" concept with the launch of the biodegradable Xtep-eco windbreaker in June 2020. The windbreaker is made of polylactic acid woven fabric extracted from corn and straw. The polylactic acid in the cloth is completely biodegradable when buried in soil within one year. The Group will strive to make additional breakthroughs in its usage and expand it into a full product line.

##### *Branding and marketing*

As the "Chinese runners' favorite brand", Xtep continued to adopt a two-pronged marketing strategy in the form of marathon and running event sponsorship as well as celebrity endorsement. During the period, we came up with an alternative way to sponsor running events online. Following the Xiamen Marathon that was held in January 2020, the Group sponsored five virtual races in Chongqing, Wuhan, Chengdu, Xiamen and Jiangsu province, attracting approximately 700,000 participants. Apart from running event sponsorships, the Group teamed up with the famous Asian basketball player Jeremy Lin, the brand's spokesperson and charity ambassador, to offer a series of online basketball training classes to all basketball fans every Friday on Xtep's WeChat official account, which have effectively increased brand awareness among younger consumers and strengthened the linkage between Xtep and basketball.

##### *E-commerce*

During the Period, the e-commerce business, which accounted for over 20% of the Group's revenue, became an extremely important retail channel since lockdown restrictions were adopted. The Group proactively diverged its sales to the e-commerce platforms and encouraged its distributors and employees to leverage private traffic such as WeChat Mini Programs and WeChat Moments to boost the sell-through rate. Nearly 200 live streams, of which over 50 times were sponsored live streams in collaboration with internet celebrities, were conducted on Tmall, Douyin, Kuaishou and other live platforms. The strategies have proven effective and drove encouraging results as Tmall flagship store retail sales recorded over 50% growth during the 618 festival.

Meanwhile, the restructuring plan for the Group's e-commerce business to integrate its supply chain operations with that of its offline business has started to bear fruit. The Group will continue to improve the design and quality of the online exclusive products to match that of the O2O products and increase the proportion of its O2O products to fully unleash the O2O synergies.

## **Professional Sports**

### **Saucony**

In June 2020, Saucony, the century-old global leading running brand, unveiled its grand opening in Shanghai at Super Brand Mall together with its new brand positioning "first-class cabin for runners". The marketing campaign for the grand opening attracted considerable attention in the market and successfully increased its brand awareness. In addition, Saucony launched Endorphin Pro, the newest model of professional running shoes that incorporates a carbon-fiber plate into the midsole to facilitate elite athletes to break personal bests, and several lines of new apparel products, to provide a broader range of products for customers. As at 30 June 2020, there were 12 Saucony stores in the tier I and tier II cities in Mainland China. The Group is actively mapping out Saucony's retail network in Mainland China and plans to open more than 30 physical stores in 2020.

### **Merrell**

Following the launch of the Tmall flagship store in Mainland China in March 2020, Merrell has offered Chinese consumers with high performing outdoor products with fashionable design. More product offerings were available to customers along with the opening of its standalone stores in Beijing in April and July 2020. The Group targets to open more stores in cities with famous landscapes for outdoor sports and activities in Mainland China in the second half of 2020. As one of the world's leading outdoor brands, Merrell aims to support and encourage everyone to engage in enjoyable outdoor adventures. During the period, Merrell introduced the signature hiking boot, MOAB, also known as "Mother of All Boots," to Chinese consumers through its Tmall flagship store. MOAB received positive feedback with a sell-through rate of 70% during the 618 shopping festival.

### **Athleisure**

The business operations of K-Swiss and Palladium were impacted by the suspension of most of their business operations in the Americas and Europe since mid-March 2020 due to the coronavirus pandemic. Despite the challenges, we strived to carry out strategic transformation for the two brands to achieve sustainable development during the first half of 2020.

### **K-Swiss**

The Group continued to conduct the rebranding process for K-Swiss in branding, product and marketing strategies, while retail network optimization is also currently underway. Upon completion of the rebranding process, K-Swiss will target to debut its brand new standalone store in tier I cities in Mainland China. The Group will further explore opportunities to open stores in shopping malls with higher customer traffic. For example, two new K-Swiss stores were opened in K11 Art Mall and tmtplaza in Hong Kong July and August 2020, respectively. As at 30 June 2020, there were a total of 42 self-operated stores in Asia-Pacific. As an American heritage footwear brand, K-Swiss collaborated closely with famous IPs to introduce various crossover and limited edition footwear collections and launched iconic footwear made from recycled materials to achieve sustainability.

### **Palladium**

Palladium has an extensive distribution network covering Mainland China, Asia-Pacific, Europe, Middle East, Africa and North America. Including the newly opened store at Harbour City in Hong Kong in June 2020, there were 31 self-operated stores in Asia-Pacific as at 30 June 2020. In addition to the Earth collection that features recycled and organic footwear, Palladium collaborated with Michelin, a French multinational tyre manufacturer, for the new Pampa X Tech collection to launch functional footwear with high performance soles for greater grip and adaptability to all terrains in the Fall-Winter season 2020.

## **Prospect**

The running market has been growing during the epidemic as more people have turned to running when social distancing guidelines took hold. The trend is expected to persist into the second half of 2020 and beyond, creating advantageous opportunities for the Group's mass market and professional sports segments. The core Xtep brand will continue to be a stable growth driver and the Group will increase investment in R&D to develop sustainable and innovative products, uplift its store productivity and provide new customer experience on both online and offline platforms.

Following Saucony's store openings in Mainland China since May 2020, it has become a new growth driver of the Group. While increasing the proportion of Saucony's apparel and localized products to offer comprehensive product lines to customers, the Group also aims to open more Saucony and Merrell stores in the second half of 2020 to tap the growing demand for professional and premium sportswear.

The coronavirus pandemic and rising tensions between the U.S. and Mainland China have impeded the recovery of the athleisure market segment, but not the progress of the brand revamp for K-Swiss. While the Group expects that the economic recovery of the Americas and Europe is expected take time, it will focus on optimizing the business for Palladium and K-Swiss in Asia-Pacific, including Mainland China, to capture the enormous athleisure market in these regions.

The Group remains cautiously optimistic that the recovery momentum of its operations in Mainland China will continue into the second half of 2020. However, the Group believes that the long-term development of the sportswear sector remains promising, supported by favorable government policies and increasing awareness of health and well-being among Chinese people. The Group will continue to enhance its core competencies and increase market share in the accelerating industry consolidation set in motion by the pandemic. The Group is confident that it is well-placed to benefit from the market consolidation with its strong net cash position and solid business foundation.

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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 6,100 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](http://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

### 2020 Interim Results Financial Highlights

For the Six Months Ended 30 June	1H2020	1H2019	Change
<b>Profitability Data (RMB million)</b>			
Revenue	3,679.1	3,356.9	+9.6%
Gross Profit	1,489.1	1,497.3	-0.5%
Operating Profit	500.7	717.3	-30.2%
Profit Attributable to Ordinary Equity Holders	247.9	463.0	-46.5%
Basic Earnings per Share (RMB cents)	10.1	20.2	-50.0%
<b>Profitability Ratios (%)</b>			
Gross Profit Margin	40.5	44.6	-4.1 p.p.
Operating Profit Margin	13.6	21.4	-7.8 p.p.
Net Profit Margin	6.7	13.8	-7.1 p.p.
Dividend Payout Ratio	60.0	59.3	+0.7 p.p.
	<b>As at 30 Jun 2020</b>	<b>As at 31 Dec 2019</b>	<b>Change</b>
Net Cash and Cash Equivalents	2,162.7	2,131.6	+1.5%
Gearing Ratio (%) (Note)	18.1	19.1	N/A

Note: Gearing ratio is defined as the total borrowings divided by the Group's total assets

### Revenue & Gross Profit Margin Breakdown

#### By Brand Nature

For the Six Months Ended 30 June	1H2020	1H2019	Change
<b>Mass market</b>			
Revenue (RMB million)	3,201.0	3,356.9	-4.6%
Gross Profit Margin (%)	40.5	44.6	-4.1 p.p.
<b>Athleisure</b>			
Revenue (RMB million)	458.6	N/A	N/A
Gross Profit Margin (%)	40.5	N/A	N/A
<b>Professional sports</b>			
Revenue (RMB million)	19.5	N/A	N/A
Gross Profit Margin (%)	38.7	N/A	N/A

#### By Product

For the Six Months Ended 30 June	1H2020	1H2019	Change
<b>Footwear</b>			
Revenue (RMB million)	2,253.8	1,911.9	+17.9%
Gross Profit Margin (%)	40.0	44.8	-4.8 p.p.
<b>Apparel</b>			
Revenue (RMB million)	1,339.3	1,356.0	-1.2%
Gross Profit Margin (%)	41.7	44.7	-3.0 p.p.
<b>Accessories</b>			
Revenue (RMB million)	86.0	89.0	-3.4%
Gross Profit Margin (%)	33.9	37.9	-4.0 p.p.