



# 2018

## INTERIM REPORT

# 中国 李宁



**LI NING COMPANY LIMITED**  
**李寧有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 2331)



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# Agenda

*Results Highlights*

*Financial Review*

*Business Review*

*Appendix*

***Results  
highlights***





# 2018H1 Highlights

## Financial Highlights :

- **Reported net profit of RMB 269million, margin raised from 4.7% to 5.7%**
  - Revenue up 18% to RMB 4,713 million
  - Gross profit margin expanded 1 percentage point
  - Maintained operating leverage notwithstanding investment in new initiatives
- **Operating cash flow increased by 12% to RMB 660 million**
- **Significant improvement in working capital continued**
  - Gross average working capital improved (reduced) by 8% while revenue increased by 18%
  - Cash conversion cycle further improved (shortened) by 11 days (2017H1: 56 days / 2018H1: 45days)

## Operational Highlights:

- **Mid-teens growth for total platform retail sales, including online and offline channels**
- **Channel inventory turnover improvement continued**
- **Overall Same-Store-Sales in 2018H1 grew high-single digit**
- **Offline channel new product sell-through increased by mid-teens with gross margin improved**
  - new product mix up 3 points

# ***Financial review***

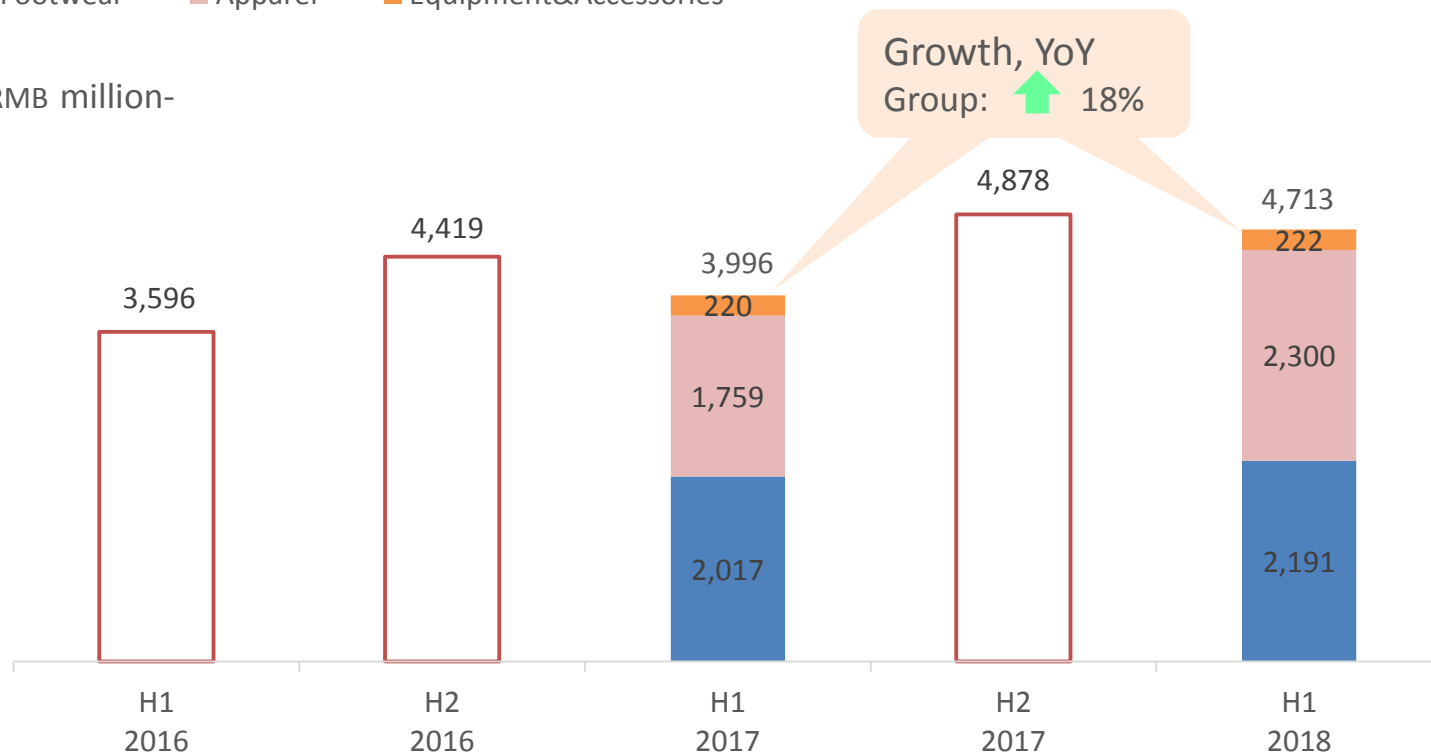


# Revenue

## Group total

■ Footwear ■ Apparel ■ Equipment&Accessories

-RMB million-

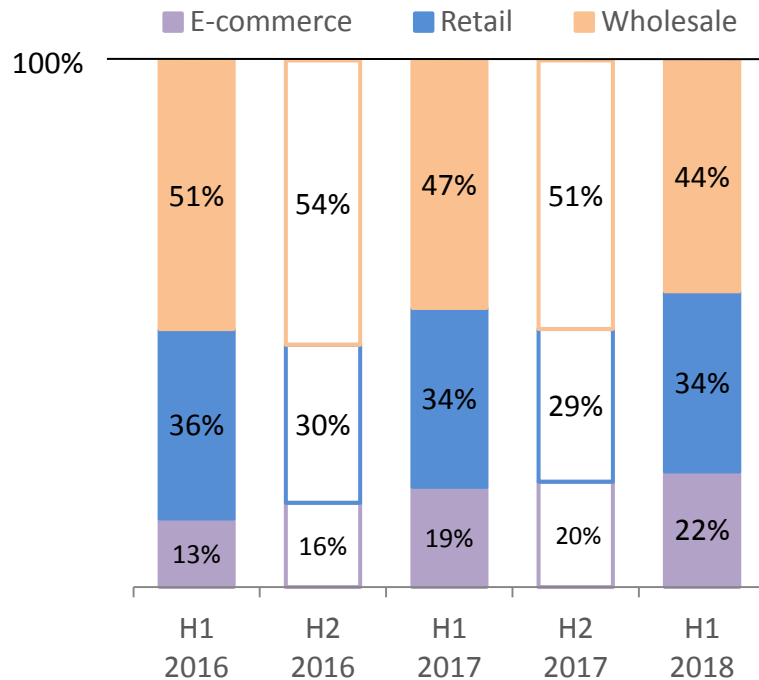


Growth primarily driven by LI-NING apparel initiative

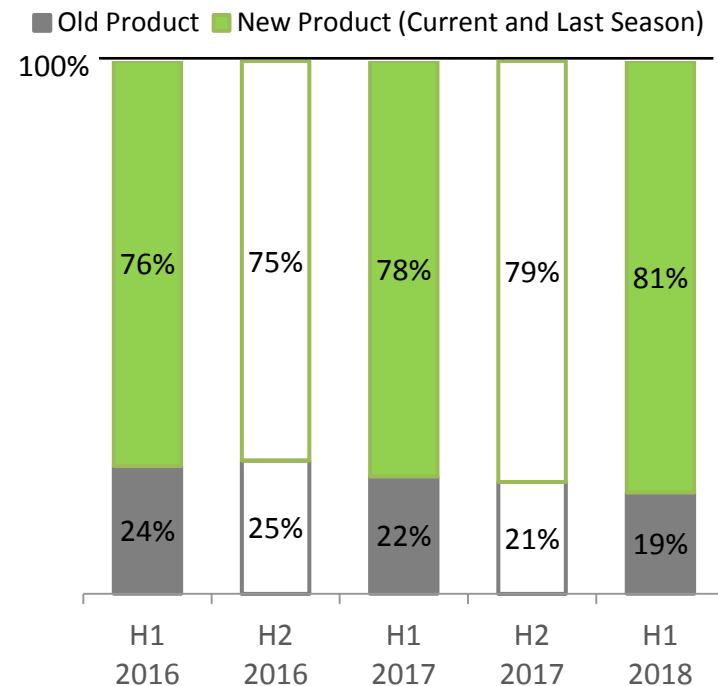
# Revenue and Sell-Through Mix

LN Brand, excl. International markets and LN YOUNG

Company Revenue Mix



Sell-Through Mix  
(Incl. Retail, Wholesale and E-commerce)



Enhanced profitability driven by well balanced business model and further improved new product mix

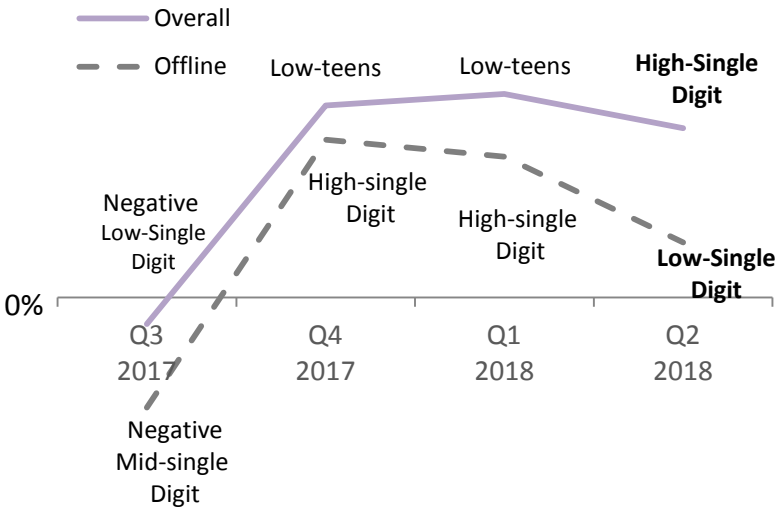
# Same Store Sales Growth (SSSG) Rate

## LN Brand

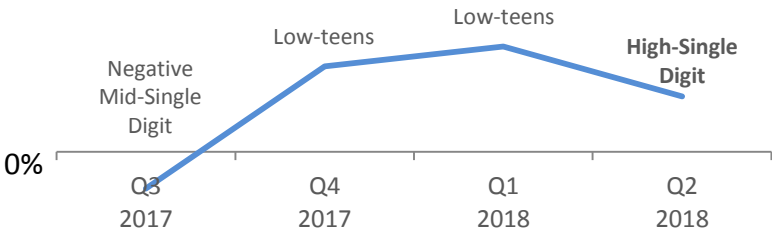
### SSSG (H1: 2018 vs 2017)

- Overall  High-Single Digit
- Retail  Low-teens
- Wholesale  Mid-Single Digit
- E-commerce\*  Mid-thirties

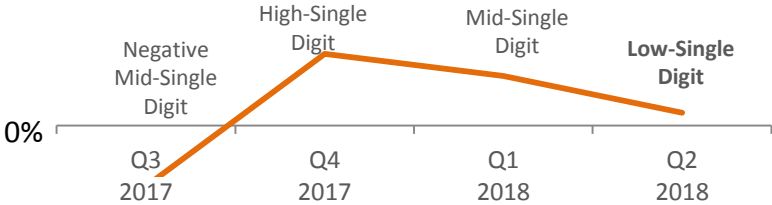
### Overall Platform



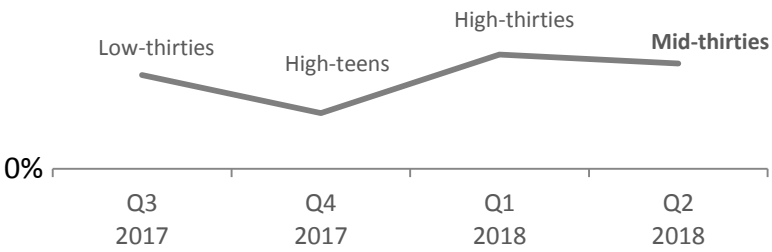
### Retail



### Wholesale



### E-commerce\*

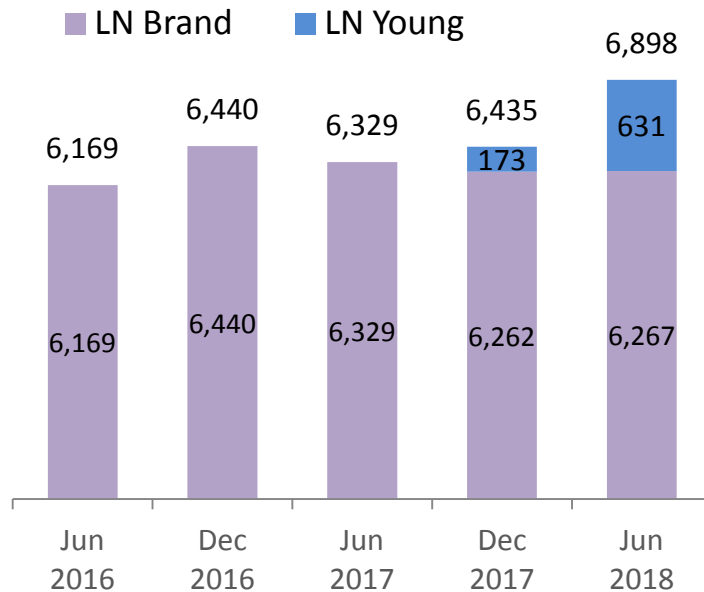


\*E-commerce: LN brand sell-through generated from T-mall, JD and Lining.com

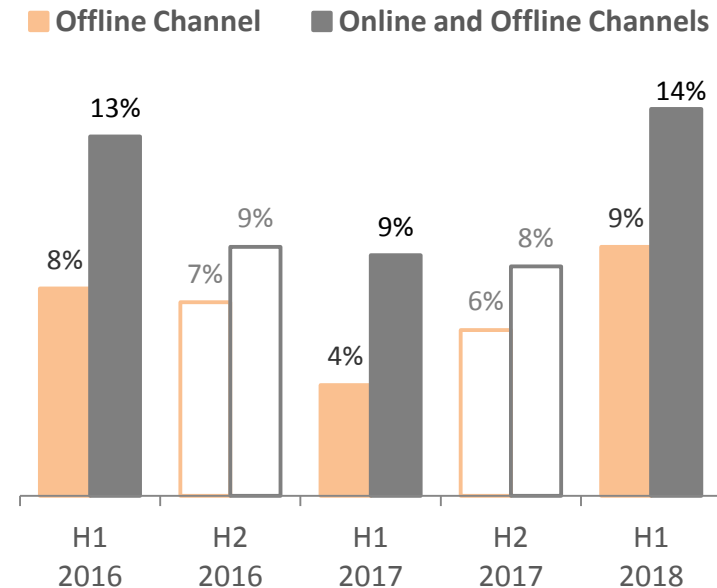
# Online and Offline Expansion

LN Brand, excl. international market sales

POS number (Period end)



Sell-through growth, YoY %  
Excl. LN YOUNG

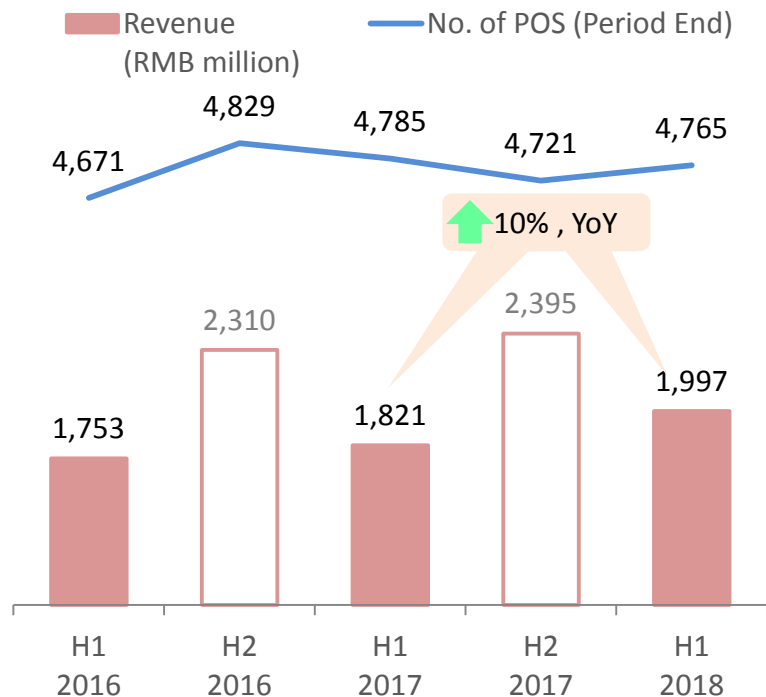


Improved productive platform with integrated online and offline growth

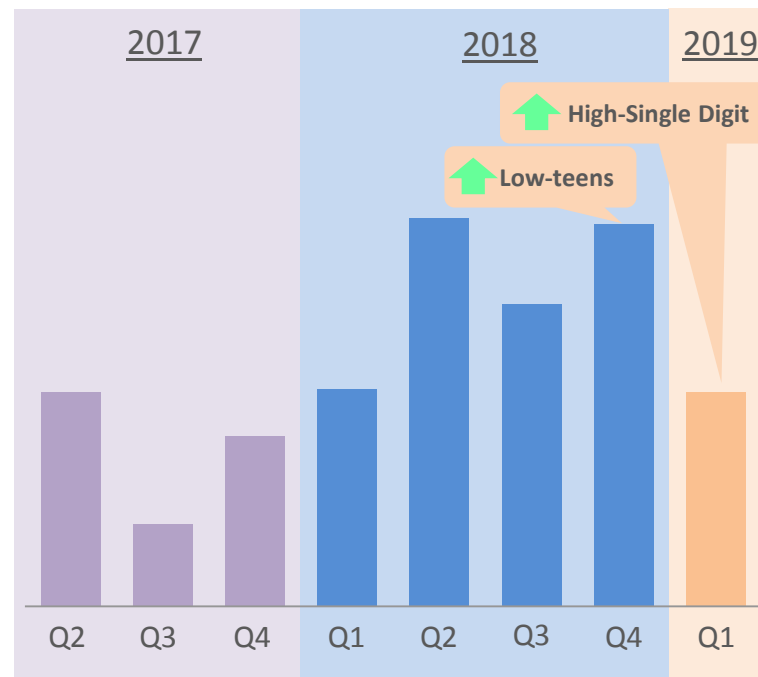
# Wholesale Business<sup>^</sup>

## LN Brand, excl. international market sales and LN YOUNG

### Business Performance



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



Controlled business growth led by sell-through focus

<sup>^</sup> Wholesale business: Including sale of badminton and football categories products to specialty-store channel wholesaler

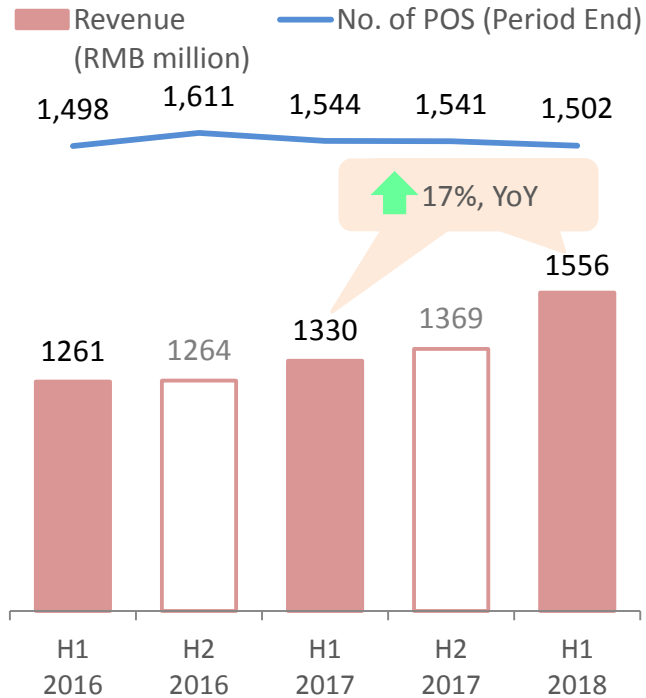
\*Order placed during trade fair (excl. orders from subsidiaries), e.g. 2019Q1 orders were placed about half year in advance



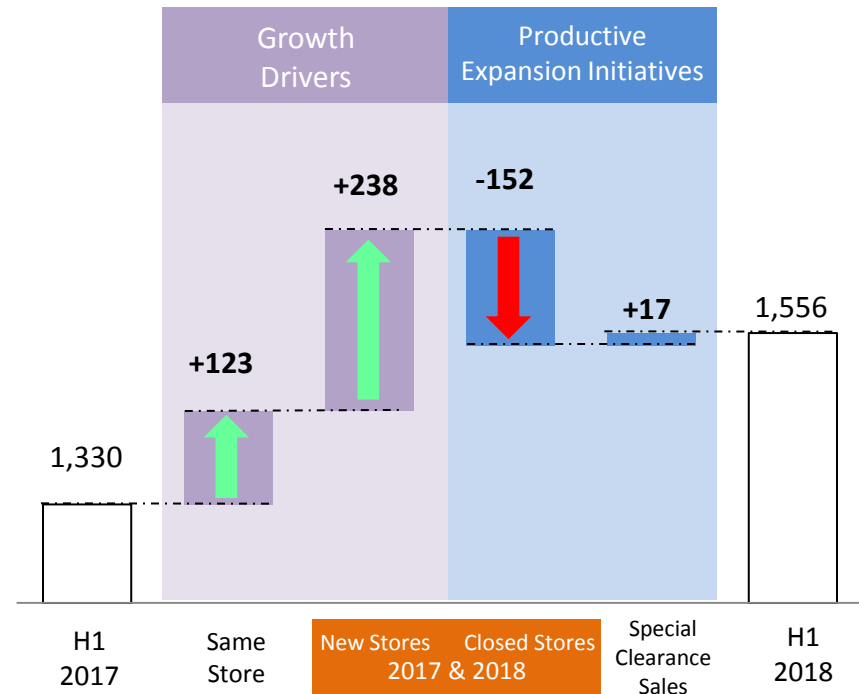
# Retail Business<sup>^</sup>

## LN Brand

### Business Performance



### Revenue Growth Analysis

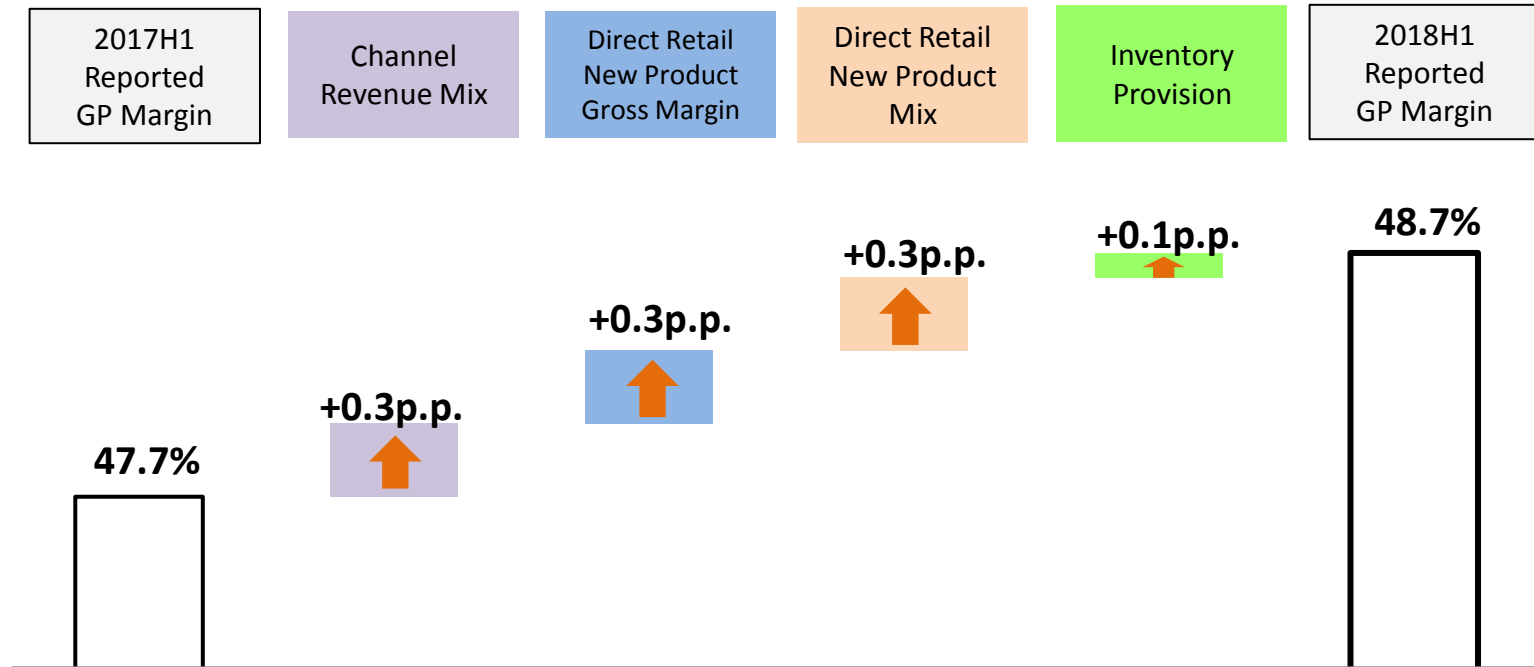


**Solid growth driven by healthy SSSG and productive store expansion**

<sup>^</sup> Retail business: Refers to direct retail operation  
Excluded LN YOUNG stores

# GP Margin Analysis

## Net Change in Major Items

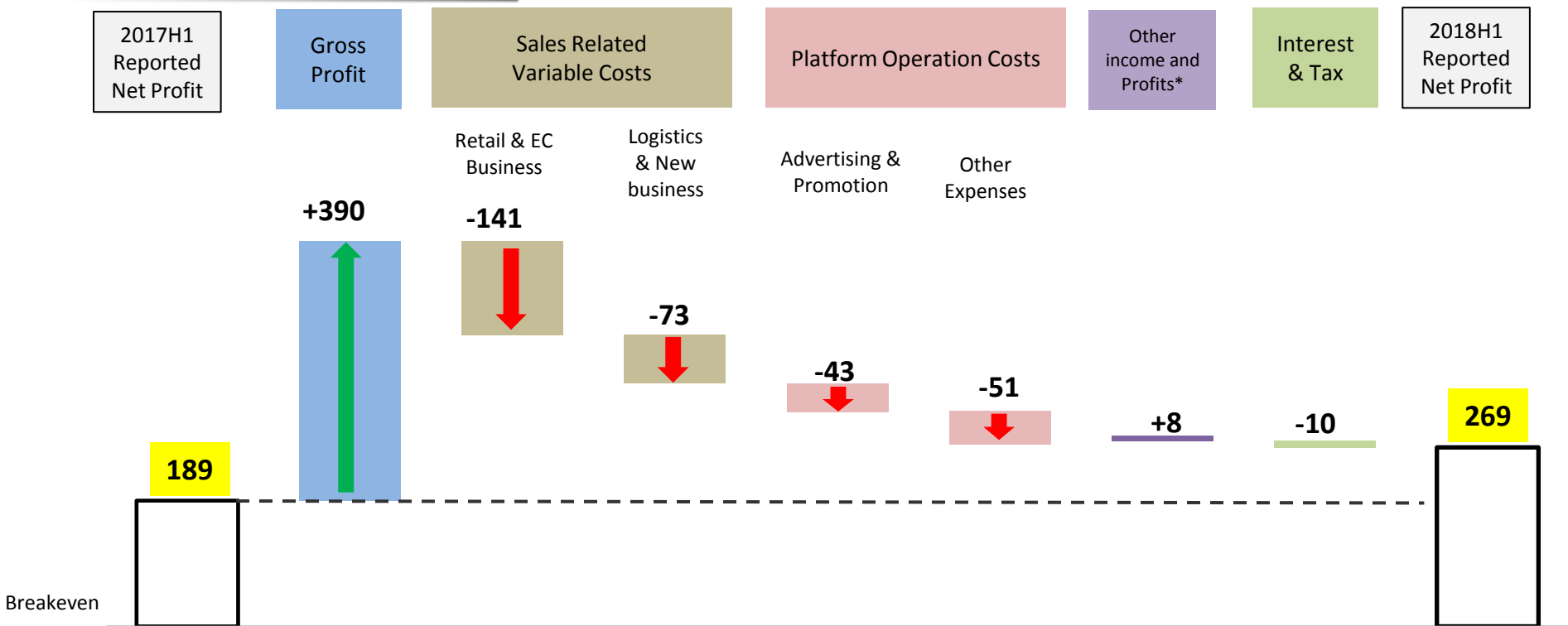


Gross margin expansion driven by further enhanced sales mix and product performance

# Profitability Analysis

## Net Change of Major P&L Items

-RMB Million-

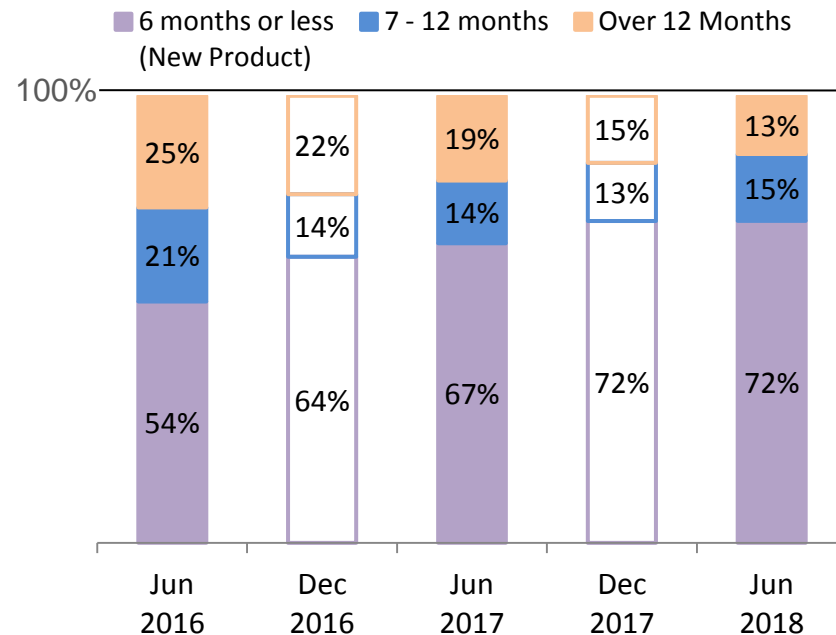
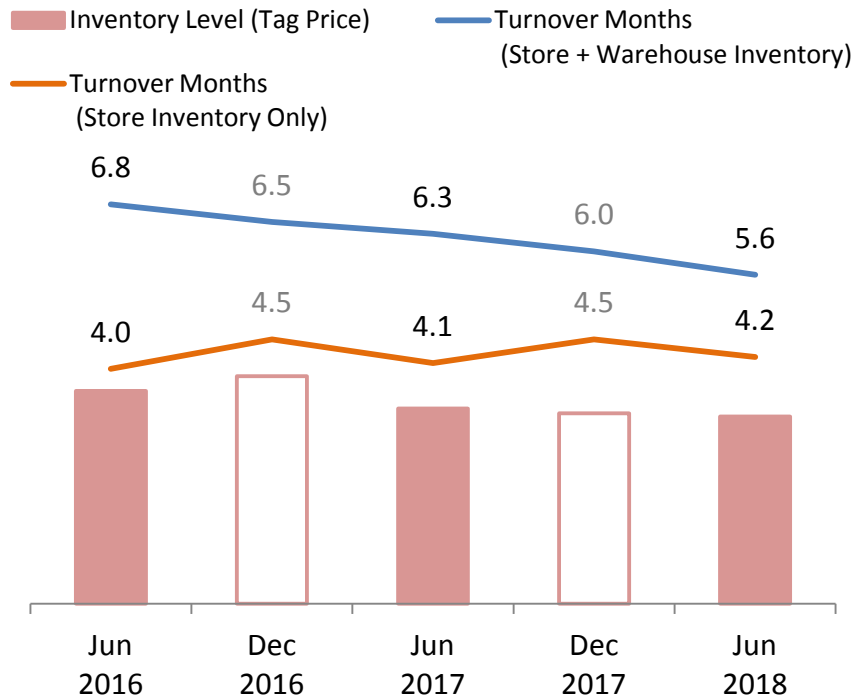


Maintained operating leverage through disciplined cost management to fund investment in new initiative

\*Other income and profits include (i) miscellaneous income and gains, (ii) share profit from associate

# Channel Inventory

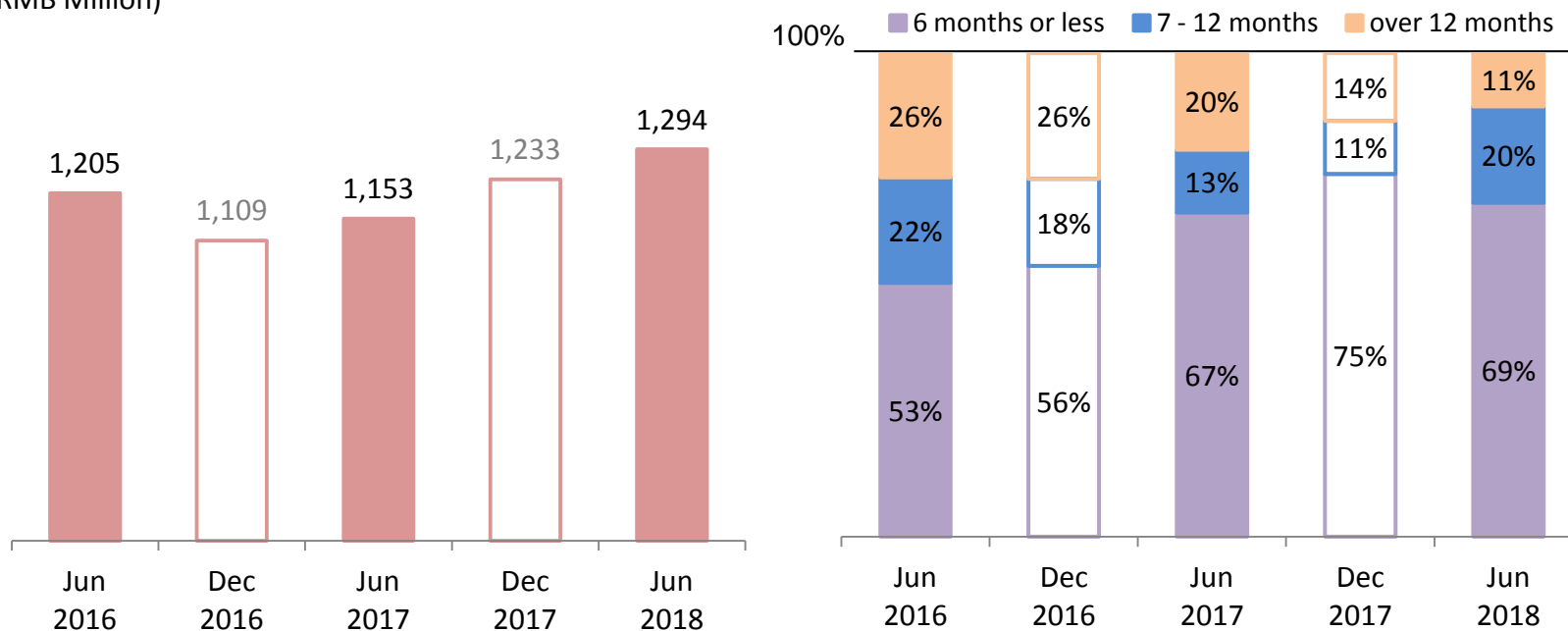
Incl. online and offline



Successful inventory management initiative achieved target turnover and structure

# Company Inventory

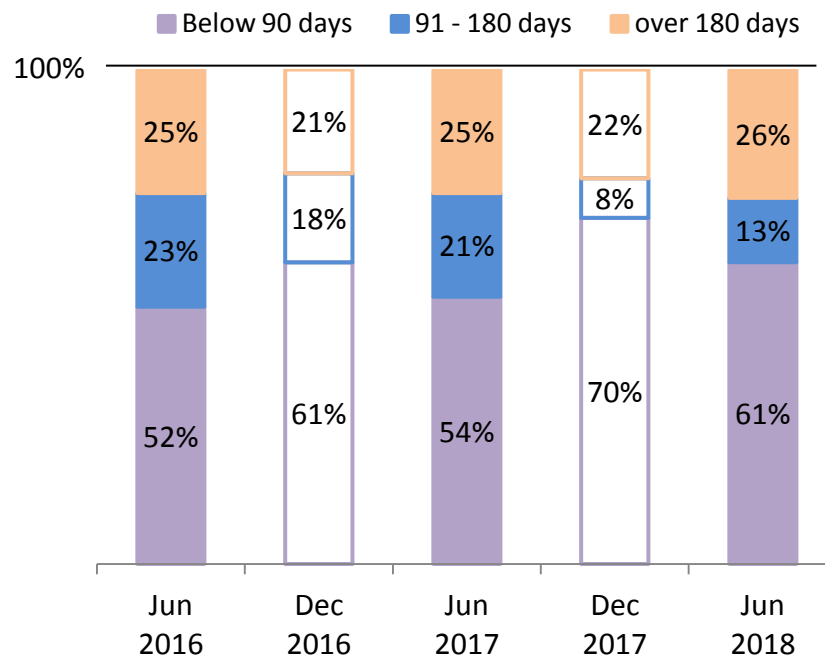
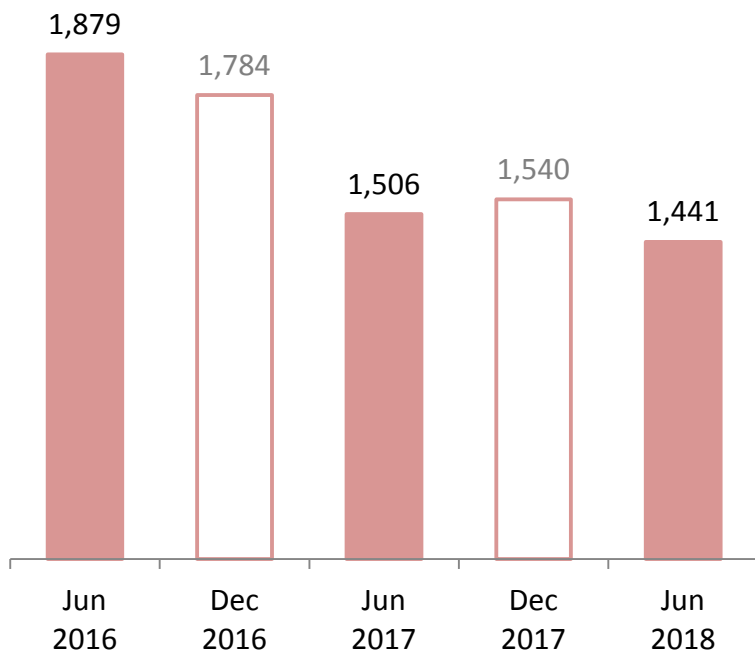
At cost, before provision  
(RMB Million)



Further optimized inventory level and structure provided healthy foundation for growth

# Trade Receivables

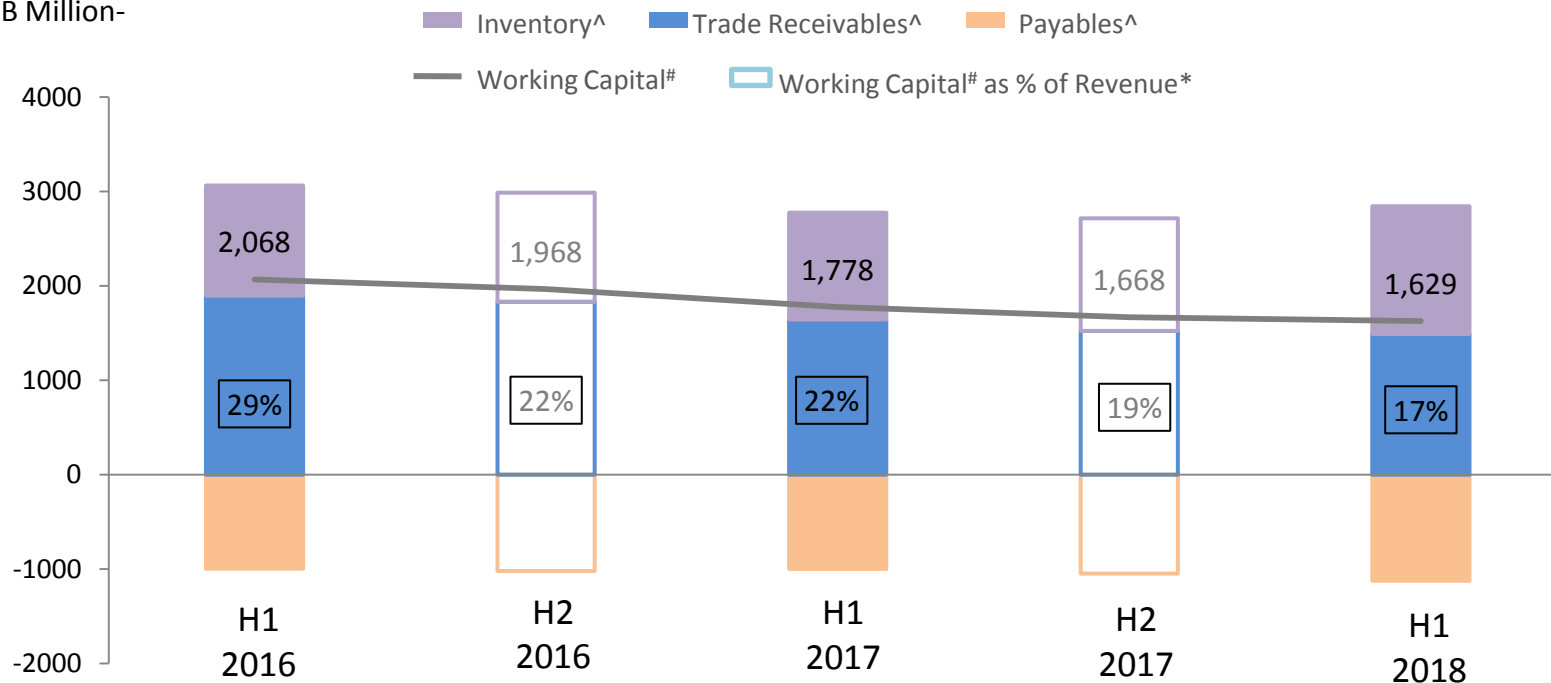
At gross amount, before provision  
(RMB Million)



Receivable Days Sales Outstanding (DSO) improved significantly

# Working Capital Efficiency

-RMB Million-



**Achieved working capital efficiency ahead of plan**

# Simple average between period opening and ending

^ Gross Amounts of inventory, trade receivables and payables, without netting off provisions

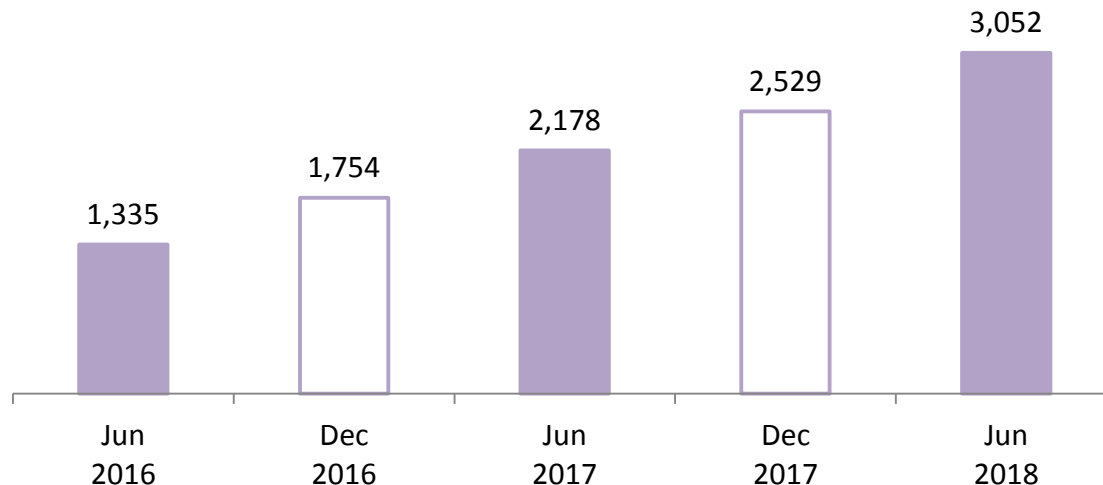
\* Annualized revenue



# Balance sheet summary and cash position

-RMB Million-

Net Cash Position^



-For the Six Months Period-

Cash Conversion Cycle (Days)	75	56	56	45	45
Operating Cash Flow*	304	532	589	570	660

^Net Cash = Cash and Cash Equivalents + short-term deposits + wealth management products – Borrowings

\*Excluded Double Happiness

# *Business Review*



# Enhance LI-NING Brand Value Through Experience to satisfy more refined consumer demand

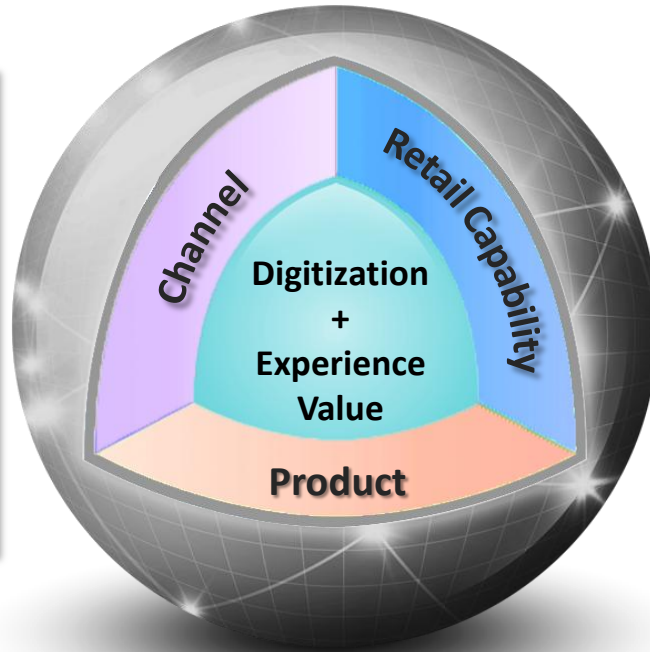
Focusing on the refinement and maturity of consumption structure, creating a more professional and unique brand experience



# Enhance LI-NING Brand Value Through Experience to satisfy more refined consumer demand

- Enhance all-round experience through "Three-Pillar": Product, Retail Capability and Channel
  - Enhance online and offline sales efficiency in accordance to data analysis

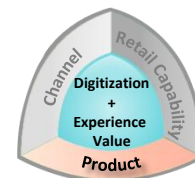
- Differentiate high and low level markets according to the varied regional needs
- Optimize channel structure, strengthen category store attributes, and advance store evaluation and management system
- Close and transform inefficient and loss-making stores to enhance channel efficiency








- Promote the transformation of product operation model to effectively respond to market changes
- Continue to establish a "Precise + Swift" logistics support system
- Strengthen retail operation standards and optimize uniform store image
- Reinforce the training for frontline salespersons and sports advisors team

- Emphasize on sports specialty, explore the combination of fashion and leisure, enhance products competitiveness
- Integrate professional sports resources with fashion trends, implement multi-dimensional marketing

# Product: Five Core Categories Drove Business Growth



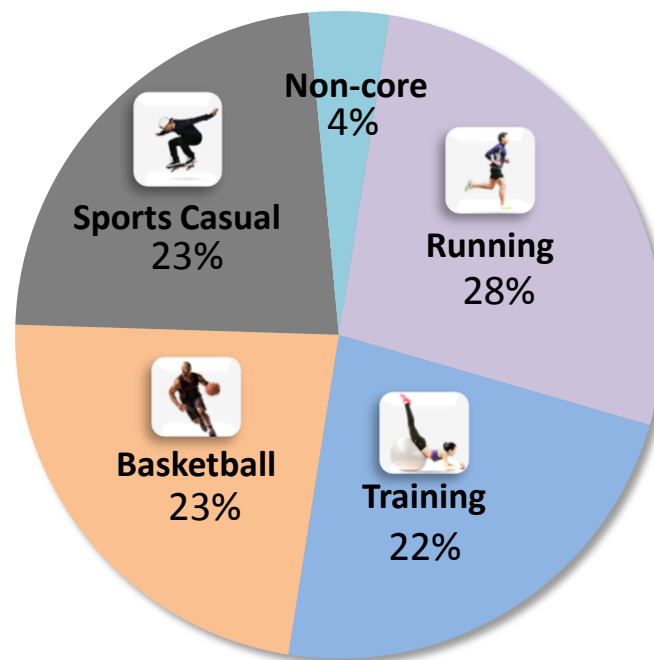
## Retail Sell-through – YoY Change

			2018H1
<b>Total Value</b>			↑ 14%
	<b>Running</b>		↑ 21%
	<b>Training</b>		↑ 29%
	<b>Basketball</b>		↑ 25%
	<b>Sports Casual</b>		↑ 22%
	<b>Non-core</b>		↓ 63%

## Sell-in – YoY change

	<b>Badminton*</b>		↑ 51%
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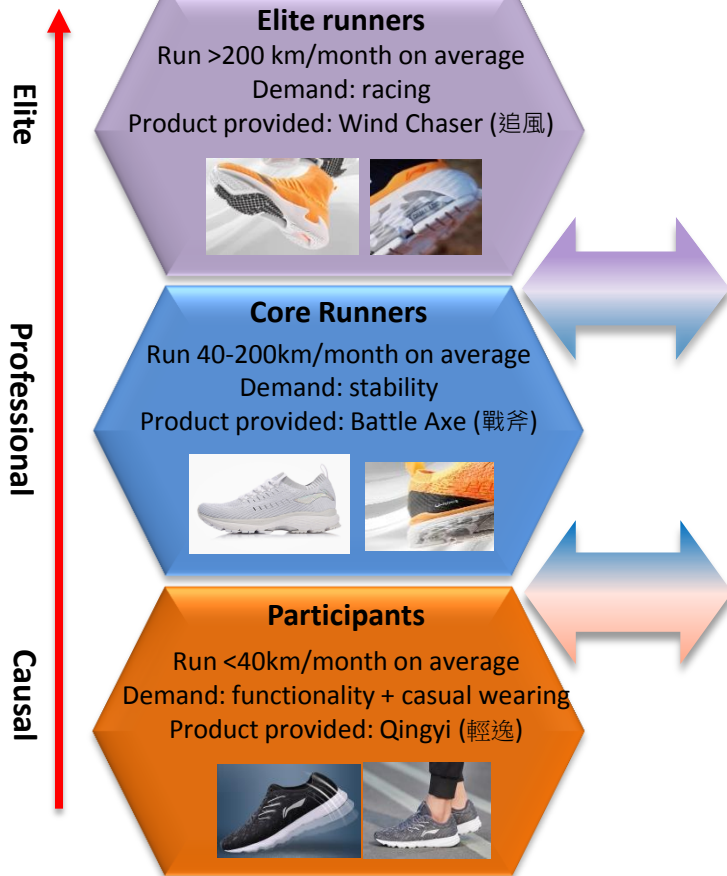
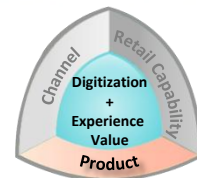
## Retail Sell-through – Mix



\* Sales of badminton products are shown with sell-in data for reference as they are mainly distributed via professional channels.



# Functional Product Series: Running



**Marketing objective :** Deliver the message that LI-NING running footwear are professional and have a breakthrough spirit

**Marketing strategy :** Sponsoring marathons and exposure in professional events

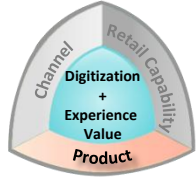


**Marketing objective :** Deliver the message that LI-NING running footwear are the combination of technological innovation and fashion

**Marketing Strategy :** LI-NING fun run festival experience, LI-NING iRun running club , Word of mouth (KOL), interaction through APP



# Functional Product Series: Running



## Sales Performance Of 3 Major Series

- Sales volume:  
**Approx. 1.32 million pairs**
- SO rate (6 months):  
**Approx. 70%**
- SO rate (3 months):  
**Approx. 57%**



### Super Light 15 Series

- Fly Knitting technology creates a lightweight body of running shoes
- Midsole is made of lightweight cushioning material

### LI-NING Arc Series

- New shock absorbing technology for the sole
- Antiskid and abrasion resistant free to run



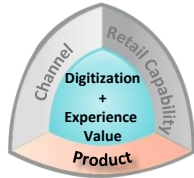
### Light Series

- Lightweight outsole, soft rebound
- Upgrade on permeability, fashionable, joyfully run every steps



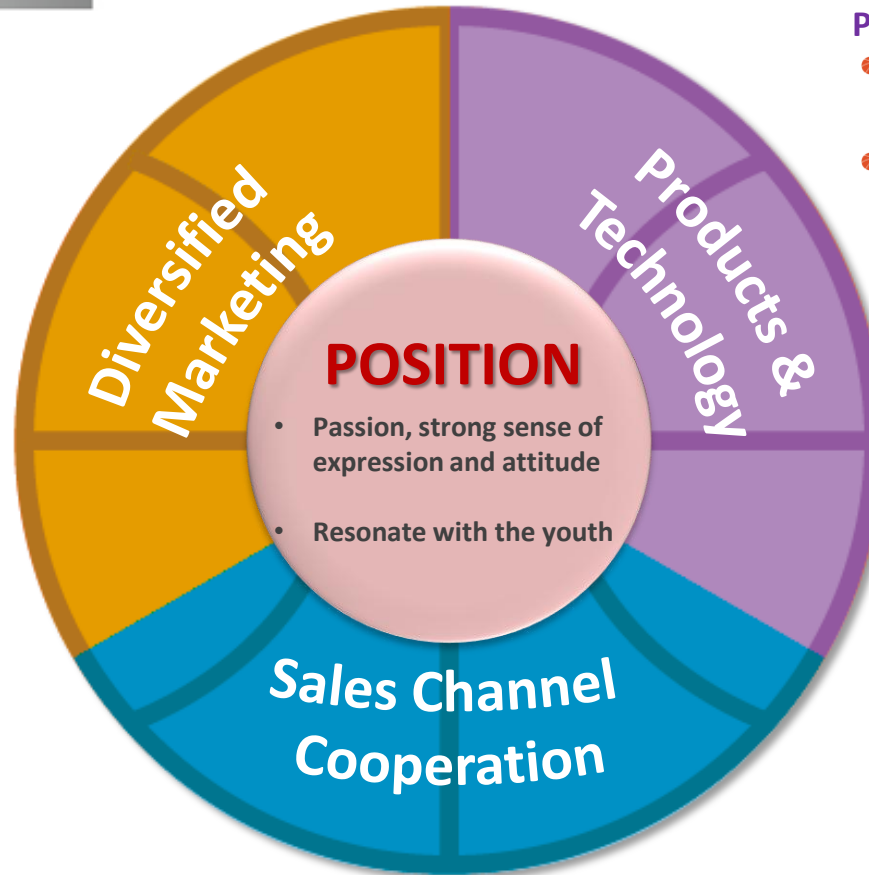


# Functional Product Series: Basketball



## Diversified Marketing

- Take seasons as the stages, leverage on star players or leagues to promote products
- Integrate high-end professional basketball resources and seek endorsement from professional opinion leaders



## Products and Technology

- Create LI-NING technology platform based on the core functional demand
- Provide top-notch technology, product packaging and independent marketing

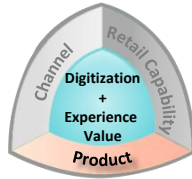


## Sales Channel Cooperation

- Create buzz while driving sales through sales activities that match channel and product characteristics



# Functional Product Series: Basketball



## Two Major Functional Basketball Shoes Series

“Sonic(音速)” Series and “Shadow Walker(魅影)” Series

- Midsole using LI-NING Cloud technology with shock absorption function
- Fly Knitting technology, embrace the feet comfortably

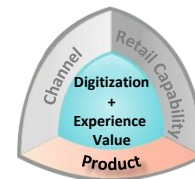


## Sales Performance in 2018 H1

- Volume: Approx. **150,000 pairs**
- SO rate (6 months): Approx. **67%**
- SO rate (3 months): Approx. **50%**



# Functional Product Series: Training



Training Apparel categorized according to environment and customer demand

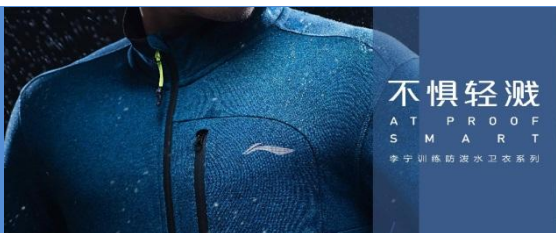
Professional fitness equipment  
for gym consumers

Fitness Training ( GYM )



Provide protection for outdoor  
athletes from different  
weathers

Active Training



Provide basic functions and  
sports experience for mass  
fitness enthusiasts

Essentials

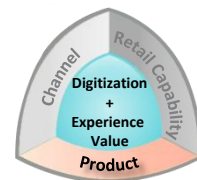


## Training Apparel

Top 20% SKUs sales performance

- Sales volume: **Over 3.8 million units**
- SO rate (6 months): **Approx. 67%**
- SO rate (3 months): **Approx. 53%**
- Account for **75%** training apparel sales

# Explore the combination of sports and fashion to enhance product competitiveness



## Sports Casual Series

Sales Volume in 2018H1:

Over 3.5 million (units/pairs)

SO rate (6 months): Over 50%

SO rate (3 months): Approx. 40%



- Capitalize on trends and hot topics
- Multi-color options, beat boredom

## “WADE” Apparel Series

Sales Volume in 2018H1:

Over 1 million units

SO rate (6 months): Over 65%

SO rate (3 months): Approx. 48%



- Playful sport-chic, stylish and functional
- Perennial combinations, simple fashion
- Provide multifarious options for different seasons

## “BAD FIVE” Apparel Series

Sales Volume in 2018H1:

Over 1.92 million units

SO rate (6 months): 70%

SO rate (3 months): Approx. 51%

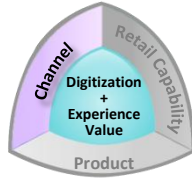


- Focus on street basketball fashion
- Playful designs, simple but fashionable
- Trendy and stylish, sporty and energetic



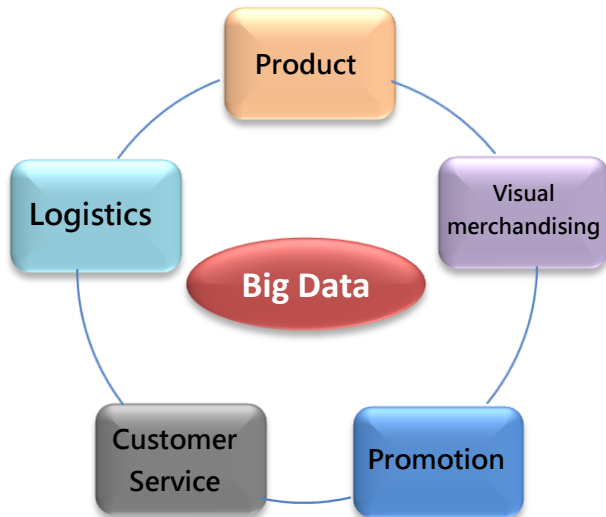
# Channel: Online/Offline Integration

## Enhanced efficiency and experience



### Continue to improve forecast system based on data analysis

- More accurate product planning and sales forecast
- Segmentize consumers according to their needs, create new online stores for professional sports community
- Increase customer loyalty through enhancing user experience
- Continuously increase online and offline interaction to seek business opportunities

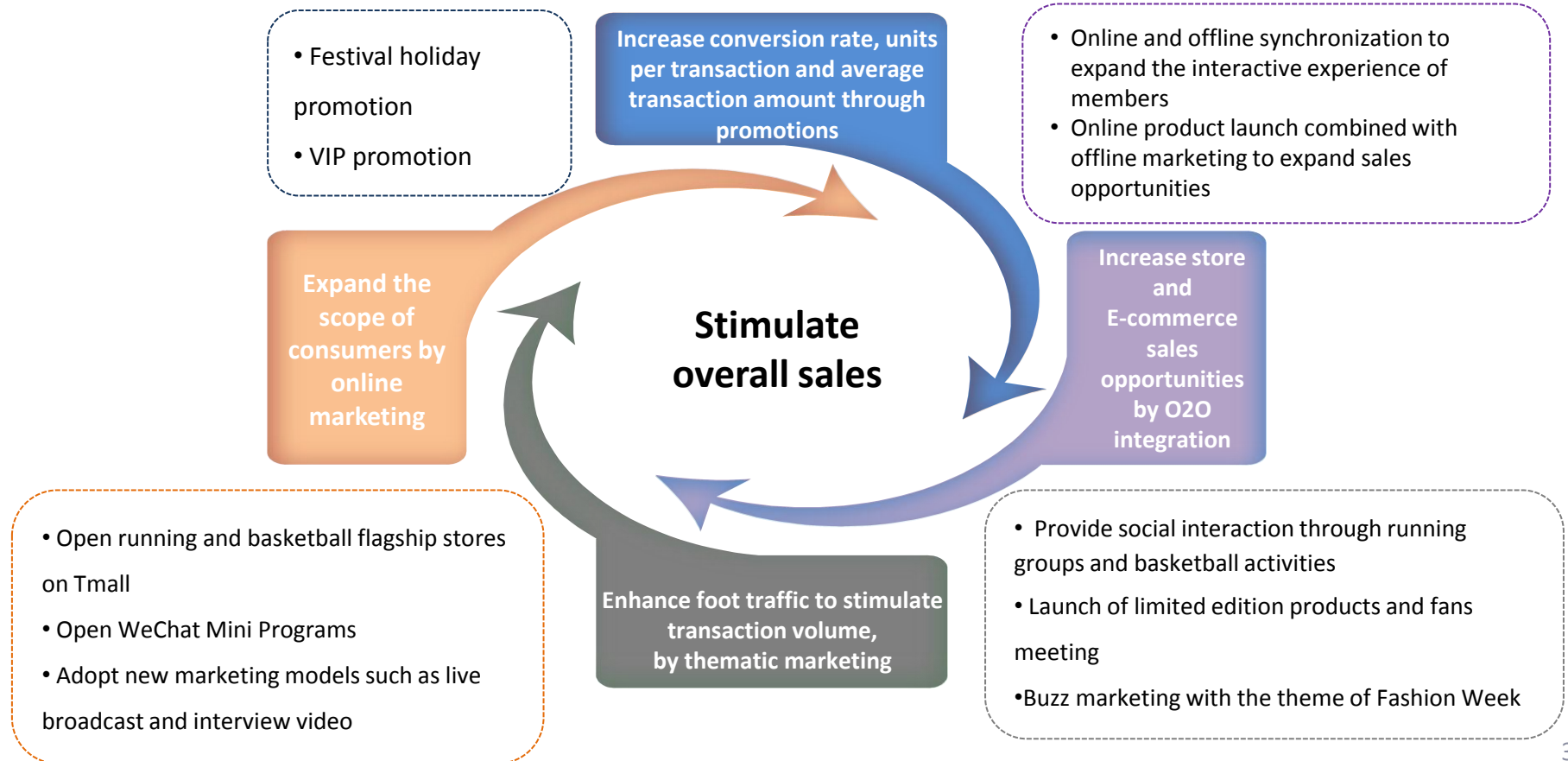
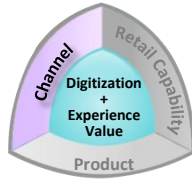


### Well-defined store categories, focused on experience-store, large store with high productivity and category theme store

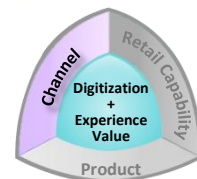
- ✓ Enhance consumer's experience
- ✓ Optimize and Innovate Stores VI/VM
- ✓ Strengthen product and retail operation



# Channel: Channel optimization and membership marketing through digitization



# Channel: Capitalized on trends, Diversified online experience



## Fashion Week



## LI-NING E-Commerce Event for 2018H1

### Tmall Shopping Festivals

Taking “China Fresh Youth” as the spiritual theme, use “Super Light 15” Series as key products to promote.



## LI-NING Trace (溯) Series

Online exclusive, aim at building customer long term recognition



Pine smoke ink  
(松煙墨)



Blush · thought  
(胭脂·念)



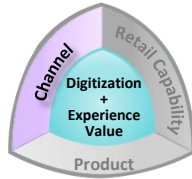
Heart of amber  
(珀之心)



Xuanyuan  
(軒轅)



# Channel: Experience store – Building a brand image to improve experience value



## Experience Store Sales Performance In 2018H1

Store Count: 27 stores (Average Size: 445 sq.mt)

Sports Experience participation : **Over 20,000 people**

Sales related to sports experience : **Approx. 3%**

### Shanghai The River Mall Experience Store

- Opened in 2017Q2
- Store Size: Over 750 sq.mt
- SSSG of 2018Q2: Approx. 50%



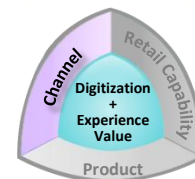
### Chengdu Chunxi South Road Experience Store



- Opened in 2017Q1
- Store Size: Over 900 sq.mt
- SSSG of 2018H1: Approx. 70%

# Channel: Larger stores with high store productivity

## Efficient operation to generate profit



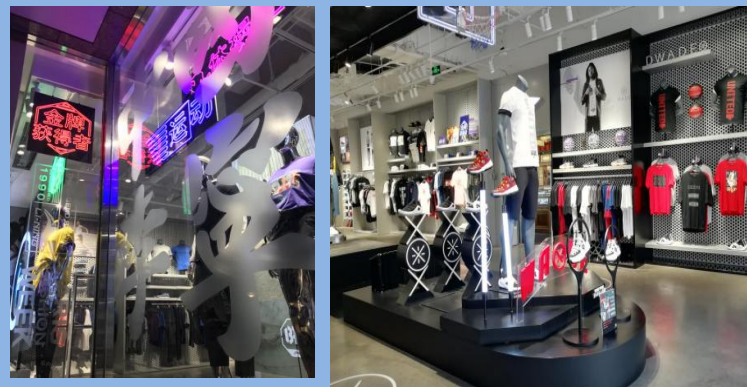
### Xian SAGA Store



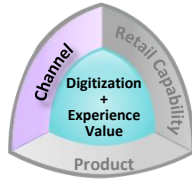
- Opened in 2016Q3
- Store size: Approx. 400 sq.mt
- SSSG for 2018H1: Approx. 40%

### Beijing Wangfujing Danyao Store

- Renovation completed in 2017Q2
- Store size: Over 350 sq.mt
- SSSG for 2018H1: Approx. 50%



# Channel: Well-defined category stores



## Category store – Running Shanghai Longemont Shopping Mall

- Opened in 2016Q2
- Store size: Approx. 80 sq.mt
- SSSG for 2018H1: approx. 30%



## Category store – WADE Shenzhen Raffles City store



- Opened in 2017Q2
- Store size: Approx. 50 sq.mt
- SSSG for 2018Q2: approx. 190%

## Category store – Sports Casual Zhuhai Huafa Store



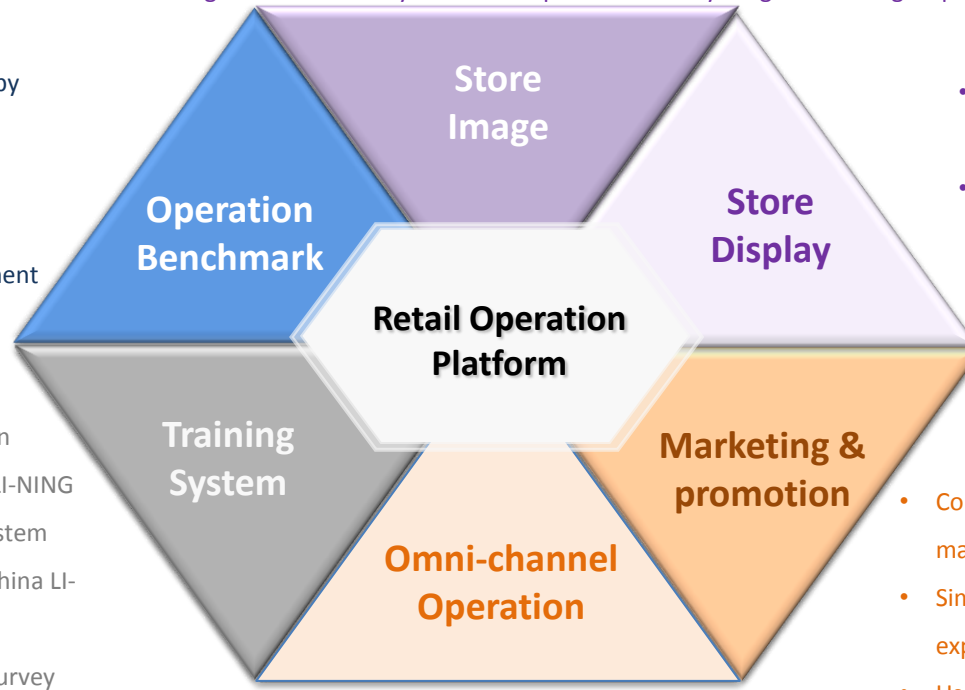
- Opened on 9 August 2018
- Store size: Approx. 150 sq.mt

# Retail Capability: Optimizing Retail Operation Platform



- According to the structural change of commercial district in high and low-level market, develop various levels of sports casual oriented stores
- Improve the store image matrix to satisfy the consumption needs of young consumer groups

- Strengthen retail operation by single store management
- Refined category store's operational service standard
- Upgrade the store management system
- Online and offline integration training coverage through "LI-NING School" (寧學堂) training system
- Enhance the standard of "China LI-NING Services+"
- Strengthen mystery visitor survey



- Improve online and offline integrated business model
- Consumers' orders responsivity, precise delivery etc. are improved

- Emphasize the technology and functionality of professional products
- According to characteristics of local commercial environment to refine product layout, in order to meet the preferences of different customers.
- Continue to strengthen the membership marketing of both offline and online
- Simultaneously expand the interactive experience for both online and offline channel
- Use membership information to establish personalized service



# Retail Capability: Strengthened The Retail Operation “Closed Loop”



## Offline Channel Sales Performance

- Sell-through: high single-digit growth
- Sales Volume: low single-digit growth

## New Product Performance

- Contribution to total sales: up 3 p.p.
- Sell-through : Up low-teens

## New Product Sell-out Rate

- 6 months: declined 4 p.p.
- 3 months: declined 2.6 p.p.



## Offline Channel Sales Efficiency

- SSSG : mid Single-digit growth
- New product gross profit margin: Up 1 p.p.

## Over 12 months inventory mix

- Channel: declined (improved) 6 p.p.
- Company: declined (improved) 9 p.p.

## Operating Cash Flow(YOY)

- Cash flow from operating activities: RMB 660 million net inflow
- Net Cash: increased by RMB 874 million
- Trade receivables before provisions: Amount decreased (Improved) by 5%
- Cash conversion cycle: decreased(improved) by 11 days

# New Business : LN YOUNG

## YOUNG

- Prudent expansion, focus on single store profitability
- As of the end of June 2018, a total of 631 stores were opened (taken over 361 stores from distributors of the 3rd party on Jan 1, 2018).
- Further improve product mix structure of shoes and apparels, and continuously improve product design, leveraging the traditional advantages and brand assets of LI-NING main brand in the product line, e.g. "National Culture" , "Wade High-end Parent and Child Series".
- Improve store management of grading system, store image upgrading and create online and offline channel integration, channel development is in full swing, planning management is more refined.
- Build up an official We-media matrix including WeChat, Weibo and Tik Tok, strengthen the cooperation with Disney and other international IP to launch products, and lead the trend of Chinese children sports wear fashion through celebrities' product trial and promotion.
- Sales channel will be increased to 750 stores by the end of 2018.



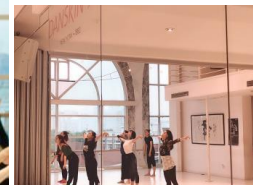
# New Business : DANSKIN

DANSKIN 

- Product positioned as a women's fashionable sports performance product;
- Found out suitable product series and main products for brand development, optimize the supplier structure, and ensure the professionalism and quality of the products.
- Digital marketing will be the main channel to deliver brand values
- Opened 10 stores by the end of 2018H1. The established stores are mainly located in first-tier cities, and they are stationed in local landmark shopping malls and shopping malls.
- Sales channel will be increased to 15-20 stores by the end of 2018.



Interactions  
• Collaborative activity with Souldancing  
DANSKIN X MARY SHIN Floral Design Class



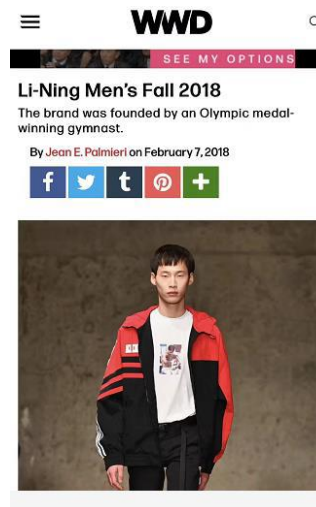


# Enhance brand image through multi-level and multi-dimensional marketing



New York Fashion Week  
Retro Fashion Trend Returned

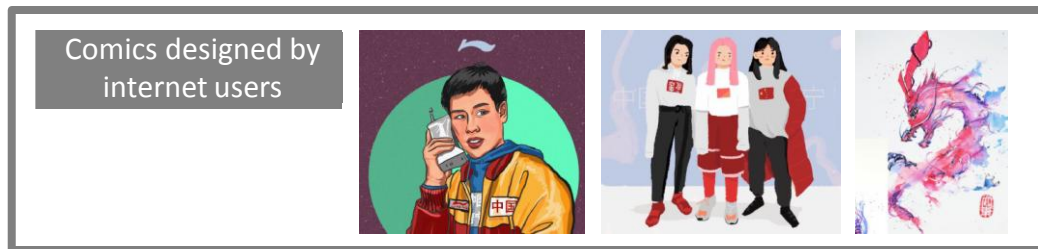
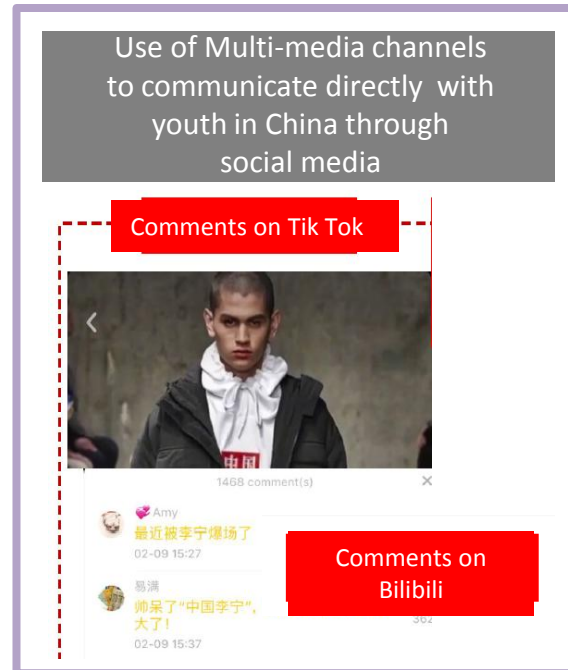
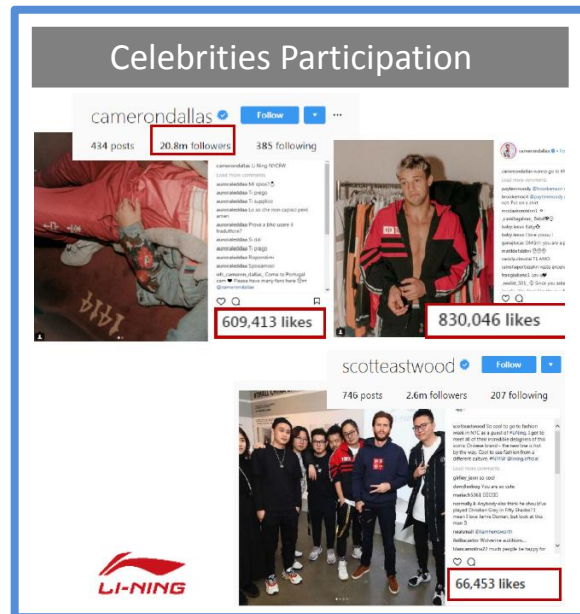
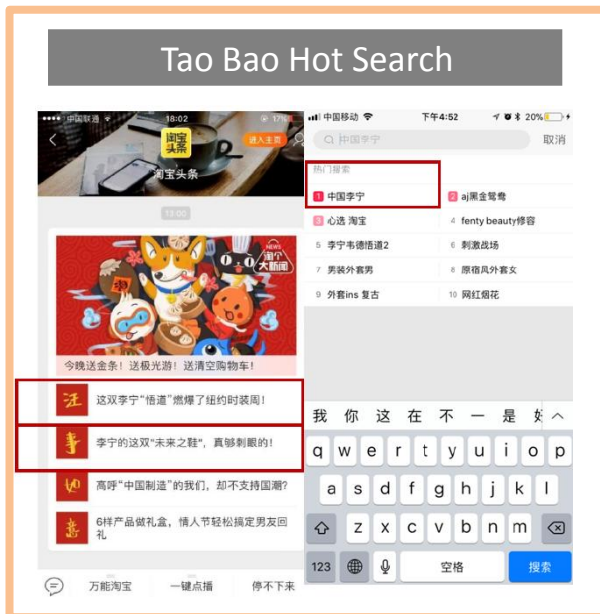
- Nearly 10,000 communication briefings were collected, # LI-NING, China # Weibo topic discussion and reading volume reached 78 million
- The first step for elevate domestic brand to international market and a higher recognition of Chinese culture.
- Help enhance the popularity of LI-NING brand among trendy youth groups.





# Enhance brand image through multi-level and multi-dimensional marketing

## New York Fashion Week Retro Fashion Trend Returned



# Enhance brand image through multi-level and multi-dimensional marketing

## Paris Fashion Week

### Made in China Pay Tribute to the future

- Inspired by Mr. LI-NING's athlete career, reinterpreted from a future perspective
- Showcase the brand substance that inherited from the classics
- To set the tone through the fashion, trendy community and KOL
- Through diverse media channels to reach a wider audience
- Nearly **40,000** communication briefings were collected, **# LI-NING, China #** Weibo topic discussion and reading volume reached **140 million**



# Enhance brand image through multi-level and multi-dimensional marketing

## Furious Rider ACE

Price : RMB 999  
Launch: 2018 Aug - Oct

- In e-sports, ACE represents the highest achievement
- Color matching in Mondrian style
- Infuse TPU support structure of Furious Rider with the style of Retro running shoes in the 90'



## Aurora Skywalk

Price : RMB 899  
Launch: 2018 Jul – Sep

- The design was inspired the shoes worn by Chinese national sporting delegation at the award ceremony of 2004 Athens Olympic
- Integrated the retro trend with “Dad Shoes” style



## 001 R-1

Price : RMB 699  
Launch: 2018 Jul - Aug

- The design was inspired by the first pair of sneaker “001” of LI-NING brand





# Enhance brand image through multi-level and multi-dimensional marketing

## 2018 Wade and C.J. McCollum China Tour



Sports

Product

Exposure of core professional basketball products, providing consumers a professional product experience through interaction



Shopping

Provide professional knowledge and sports experience platform through Top NBA players' endorsement of LI-NING Basketball Academy and 3+1 Basketball League

Enhance the professional ambience of sales channels, combined with launching of professional products, enhance consumers' shopping experience during basketball peak season

# Enhance brand image through multi-level and multi-dimensional marketing

Jul 23<sup>rd</sup> Wade in Guangzhou



## 2018 Wade and C.J. McCollum China Tour

Jul 18<sup>th</sup> Beijing LI-NING Center

Wade officially renewed contract with LI-NING  
Way of Wade 7 officially launched



Jul 20<sup>th</sup> LI-NING 3+1 Basketball league in Kunming

Wade and Haslem jointly witnessed the championship



Jul 22<sup>nd</sup> LI-NING 3+1 Basketball league in Lanzhou

C.J. McCollum joined the event  
Yushuai XII "Dunhuang (敦煌)" launched





*Open Forum*

# Summary of Income Statement and Balance Sheet

(RMB million)	2018	2017	Better/ (Worse)
	Period ended 30 June		
Revenue	4,713	3,996	17.9%
Gross Profit	2,294	1,904	20.5%
Distribution costs	-1,735	-1,502	(15.5%)
Administrative expenses	-296	-220	(34.5%)
Other income and other gains – net	31	20	55.0%
Operating Profit	294	202	45.6%
EBITDA	527	416	26.9%
Profit Attributable to Equity Holders	269	189	42.0%
Basic Earnings per share(RMB cents)	11.10	7.93	40.0%

(RMB Million)	30 Jun 2018	31 Dec 2017	Better/ (Worse)
Cash and Cash Equivalents	2,693	2,529	6%
Borrowings	0	0	N/A
Short-term Deposits	109	0	N/A
Wealth Management Products	250	0	N/A
Net Cash*	3,052	2,529	21%
Current Liabilities	2,503	2,128	18%
Current Ratio(times)	2.3	2.4	(0.1)
Total Liabilities to Total Assets Ratio	33%	31%	(2p.p.)

\*Net Cash = Cash and Cash Equivalents + short-term deposits + wealth management products – Borrowings

# Profit Margins And Key Operating Indicators

	2018	2017	Better/ (Worse)
	Period ended 30 June		
Gross Profit Margin	48.7%	47.7%	1.0p.p.
Operating Profit Margin	6.2%	5.0%	1.2p.p.
EBITDA Margin	11.2%	10.4%	0.8p.p.
Margin of Profit Attributable to Equity Holders	5.7%	4.7%	1.0p.p.
R&D Expenses(as % of revenue)	1.3%	1.4%	0.1p.p.
A&P Expenses(as % of revenue)	10.5%	11.3%	0.8p.p.
Staff Costs(as % of revenue)	11.5%	10.7%	(0.8p.p.)

	2018	2017	Better/ (Worse)
	Period ended 30 June		
Inventory Turnover(Days)	85	85	Flat
Trade Receivables Turnover(Days)	42	56	14
Trade Payables Turnover(Days)	82	85	(3)
Cash Conversion Cycle(Days)	45	56	11
Return on Equity(ROE)	5.1%	4.3%	0.8p.p.
Return on Asset(ROA)	3.5%	2.8%	0.7p.p.
CAPEX(RMB million)	187	164	14%