

# 2020

## INTERIM RESULTS



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code:2331)



# LI-NING

## Disclaimer

This presentation incorporates information contained in the interim results announcement (the “Results Announcement”) for the six months period ended 30 June 2020 of Li Ning Company Limited (the “Company”). This presentation should be read in conjunction with the Results Announcement and is qualified in its entirety by the more detailed information and financial information contained in the Results Announcement.

Other than the information contained in the Results Announcement, you shall not reproduce or distribute this presentation, in whole or in part, and you shall not disclose any of the contents of this presentation or use any information herein for any purpose without the Company’s prior written consent. You hereby agree to the foregoing by accepting delivery of this presentation.

The contents of this presentation have not been reviewed or approved by any regulatory authority in Hong Kong or elsewhere. The contents of this presentation are not investment, legal or tax advice. You are advised to exercise caution in perusing the contents of this presentation. If you are in any doubt about any of the contents of this presentation, you should obtain independent professional advice.



# CONTENTS

- 1 Results Highlights
- 2 Financial Review
- 3 Strategic Direction
- 4 Operational Progress
- 5 Appendix



# *LI NING* Results Highlights

QUICK-17

# LI-NING

## 2020H1 Financial Highlights

### Financial Highlights :

- On a comparative basis, the net profit\* attributable to equity holders increased by 22% to RMB683 million, and the net profit margin raised from 9.0% to 11.1%;
  - Including the one-off profit and loss not related to operation for the corresponding period last year, reported net profit attributable to equity holders decreased by approximately 14% and the net profit margin dropped from 12.7% to 11.1%;
- Notwithstanding the impact of the COVID-19 leading to a very challenging retail environment:
  - Revenue decreased slightly by approximately 1% to RMB6,181 million
  - Gross profit margin decreased by 0.2 percentage point
  - Continued enhanced operating leverage driving operating margin to 14.5%, up over 300 basis points
  - Achieve positive operating cash flow of RMB479 million
  - Continued improvement in working capital:
    - Gross average working capital improved (reduced) by 7% while revenue decreased by approximately 1%
    - Cash conversion cycle further improved (shortened) by 2 days (2019H1: 32 days/2020H1: 30 days)

\*Exclude one-off profit and loss not related to operation of RMB234m in 2019H1.



# 2020H1 Operational Highlights

## Operational Highlights:

- Amid the COVID-19 impact, operation performance negatively influenced
- The retail sell-through for the overall platform recorded low-teens decrease, including online and offline channels
- Channel inventory recorded low-teens increase
- Offline channel new product sell-through down mid-teens driven by sales volume decline:
  - Average selling price (ASP) registered a low-single-digit increase notwithstanding a very promotional retail environment
  - Sell-out rate: 6-month declined over 6 percentage points  
3-month declined approximately 5 percentage points

The background of the slide is a photograph of a recycling bin. A single Li-Ning sneaker, primarily white with yellow and red accents, is the central focus. It is surrounded by various types of waste: crumpled white paper, a yellow plastic bag, a red plastic bag, a black plastic bag, and pieces of black and yellow mesh fabric. The sneaker has "EXO" branding on its side and a Li-Ning logo on the tongue.

# **LI-NING** *Financial Review*

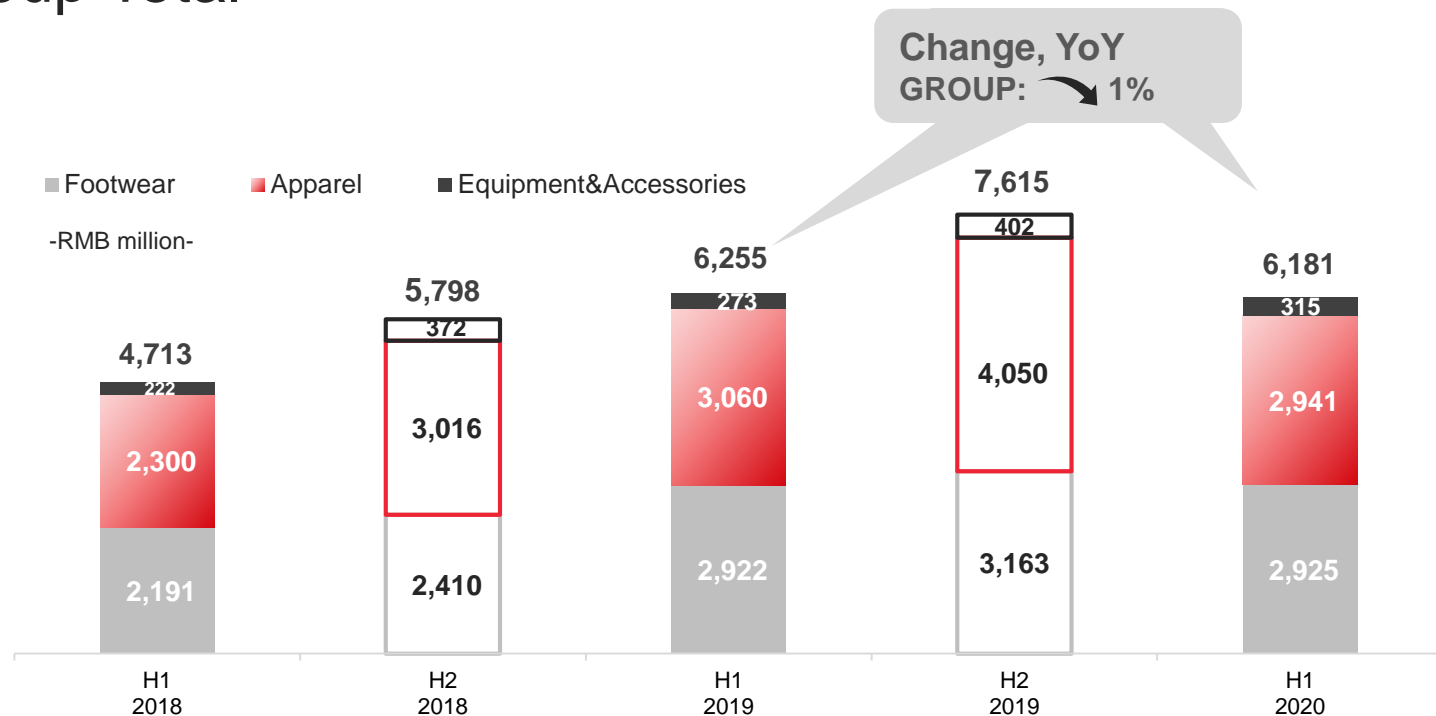
---

GRUPO-17

# LI-NING

## Revenue

### Group Total



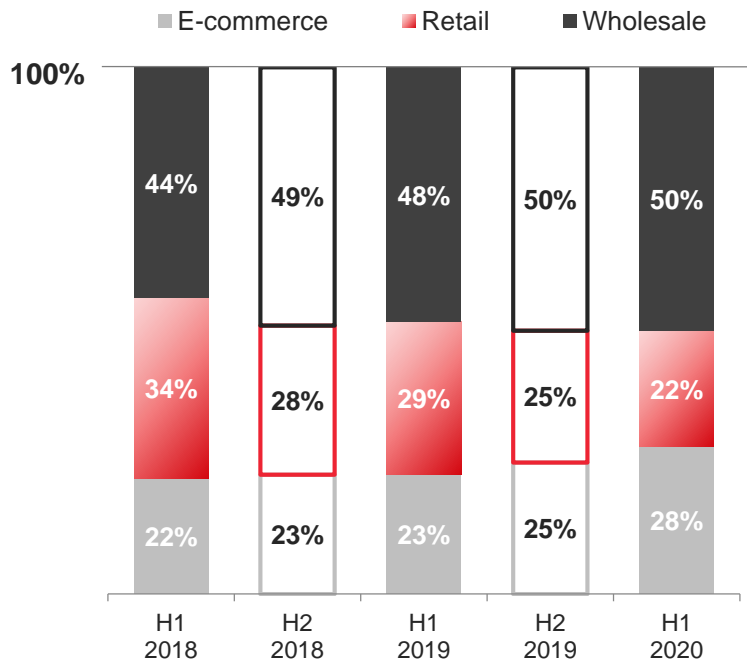
**COVID-19 impacted revenues growth momentum**



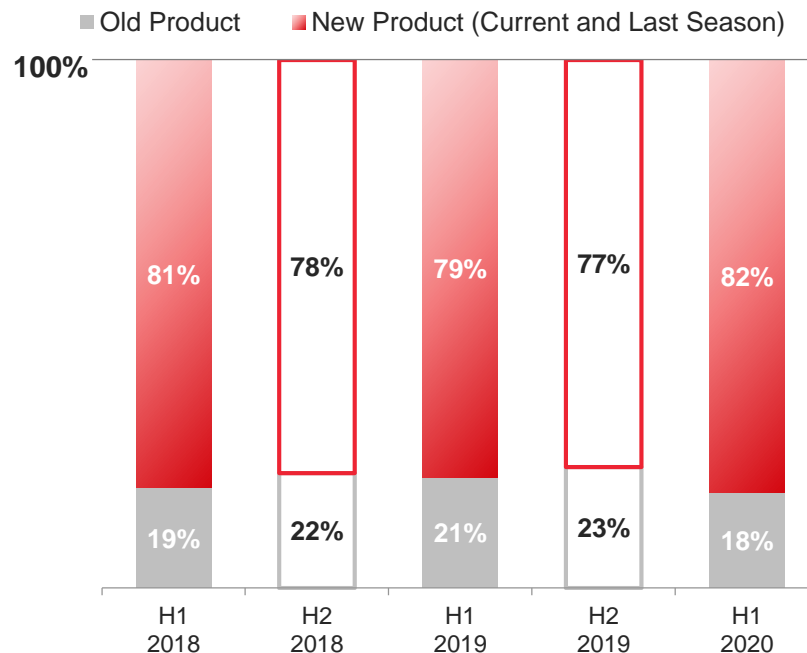
# Revenue and Sell-through Mix

LN Brand, excl. International Markets and LN YOUNG

## Company Revenue Mix



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



**Revenue and sell-through balance between DTC and wholesale helped mitigate financial risk**

# LI-NING

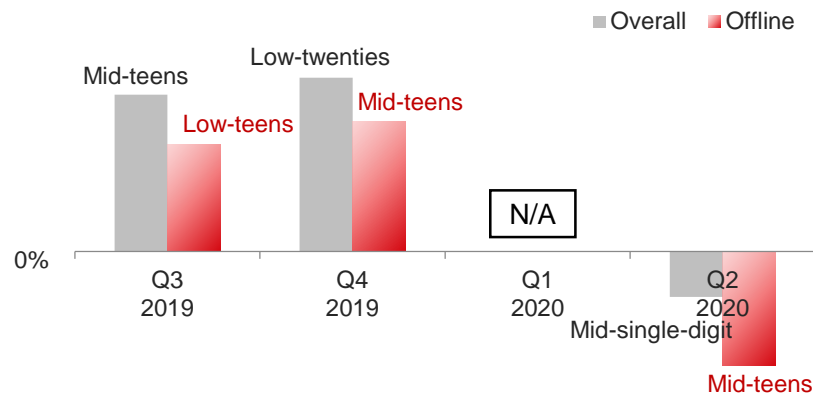
## Same Store Sales Growth (SSSG) Rate

LN Brand

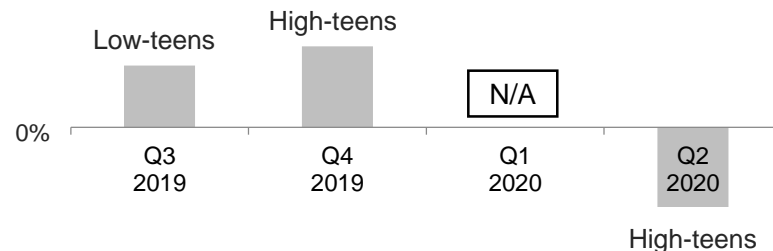
### SSSG (2020 Q2 vs 2019 Q2)

- Overall
  - Retail
    - Wholesale
    - E-commerce
  - Mid-single-digit
  - High-teens
  - Low-teens
  - Mid-twenties

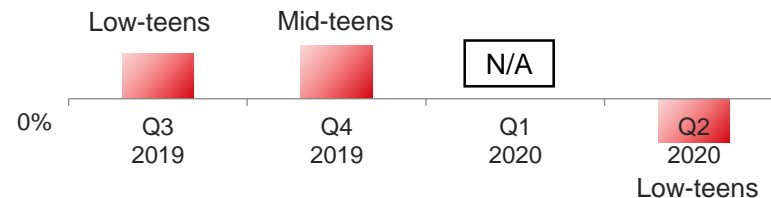
### Overall Platform



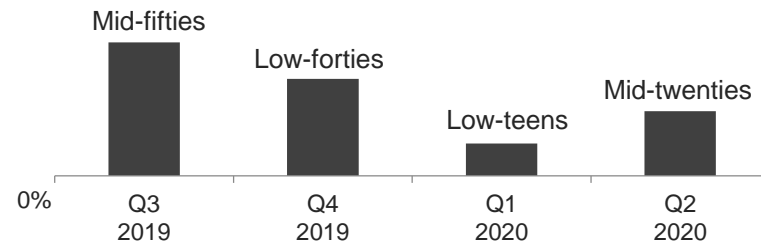
### Retail



### Wholesale



### E-commerce

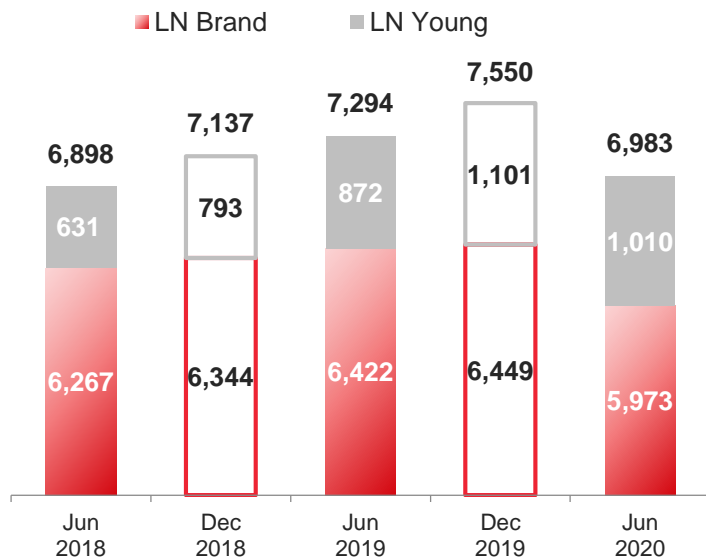


# LI-NING

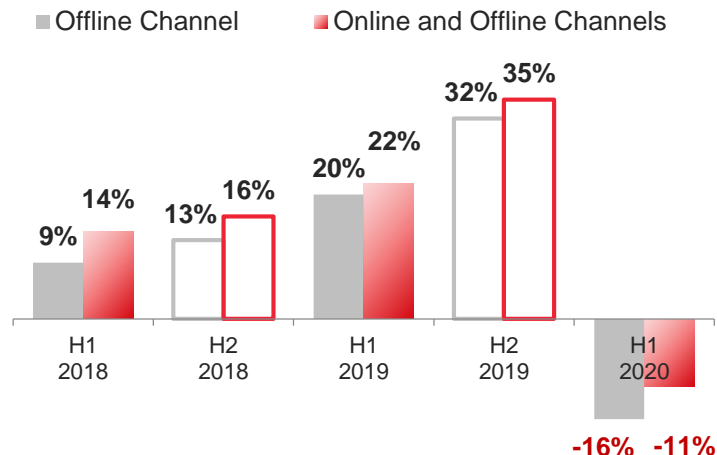
## Online and Offline Expansion

LN Brand, excl. International Market Sales

**POS number (Period end)**



**Sell-through growth, YoY %  
Excl. LN YOUNG**

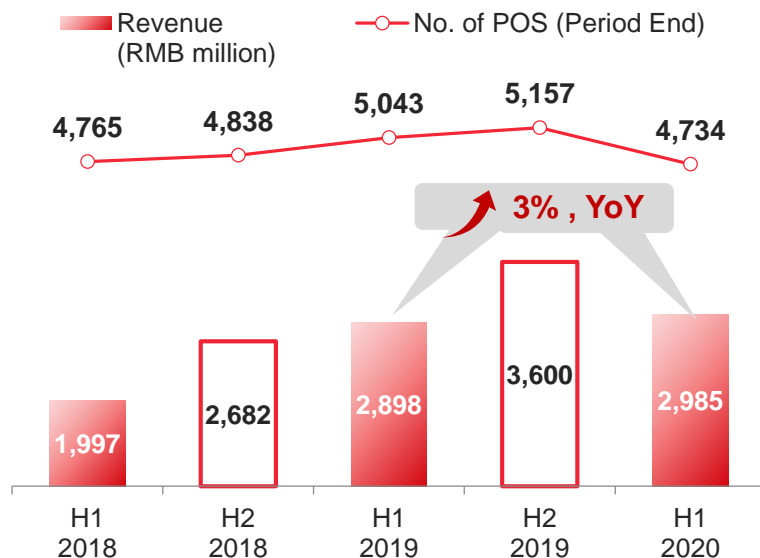


**COVID-19 impacted store opening/closing rhythm and negatively impacted sell-through momentum**

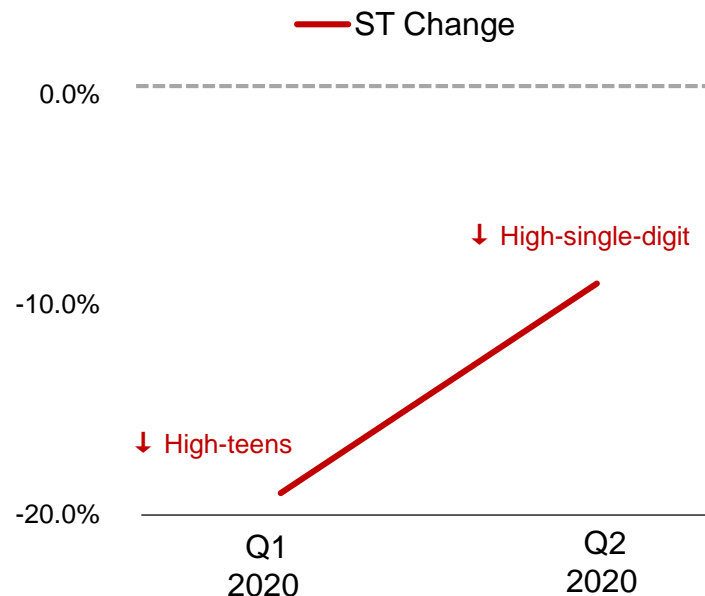
# LI-NING Wholesale Business<sup>^</sup>

LN Brand, excl. International Market Sales and LN YOUNG

## Business Performance



## Impact of COVID-19 on Sell-through, YoY%



**Sell-in preceded sell-through trend to capitalize on recovery**

<sup>^</sup> Including product sales of badminton and football categories from specialty-stores.

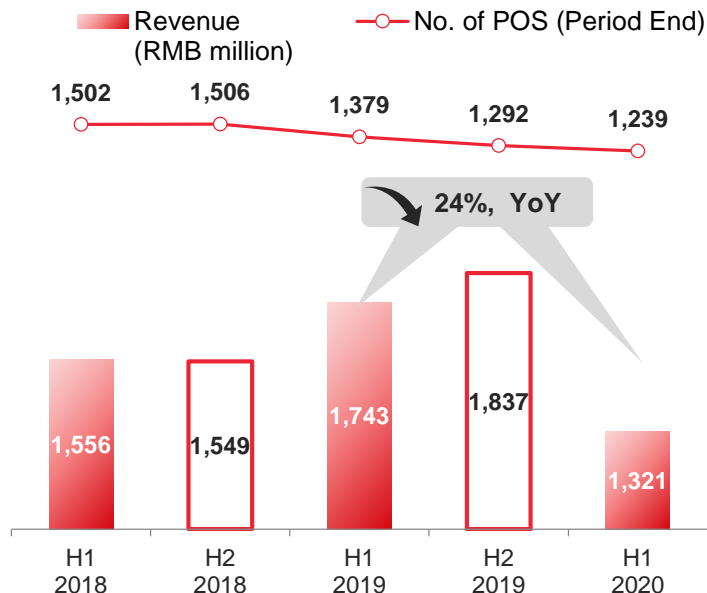


# LI-NING

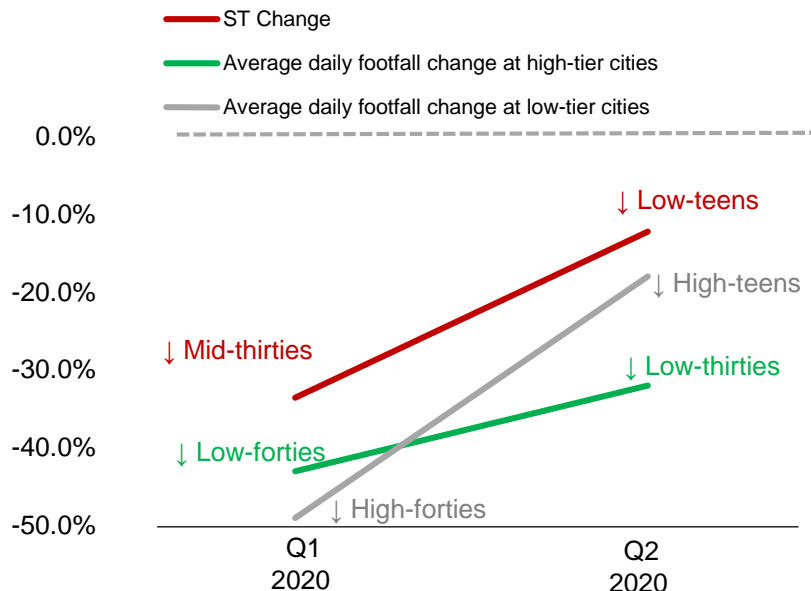
## Retail Business<sup>^</sup>

LN Brand

### Business Performance



### Impact of COVID-19 on Sell-through and Average Daily Footfall<sup>#</sup>, YoY %

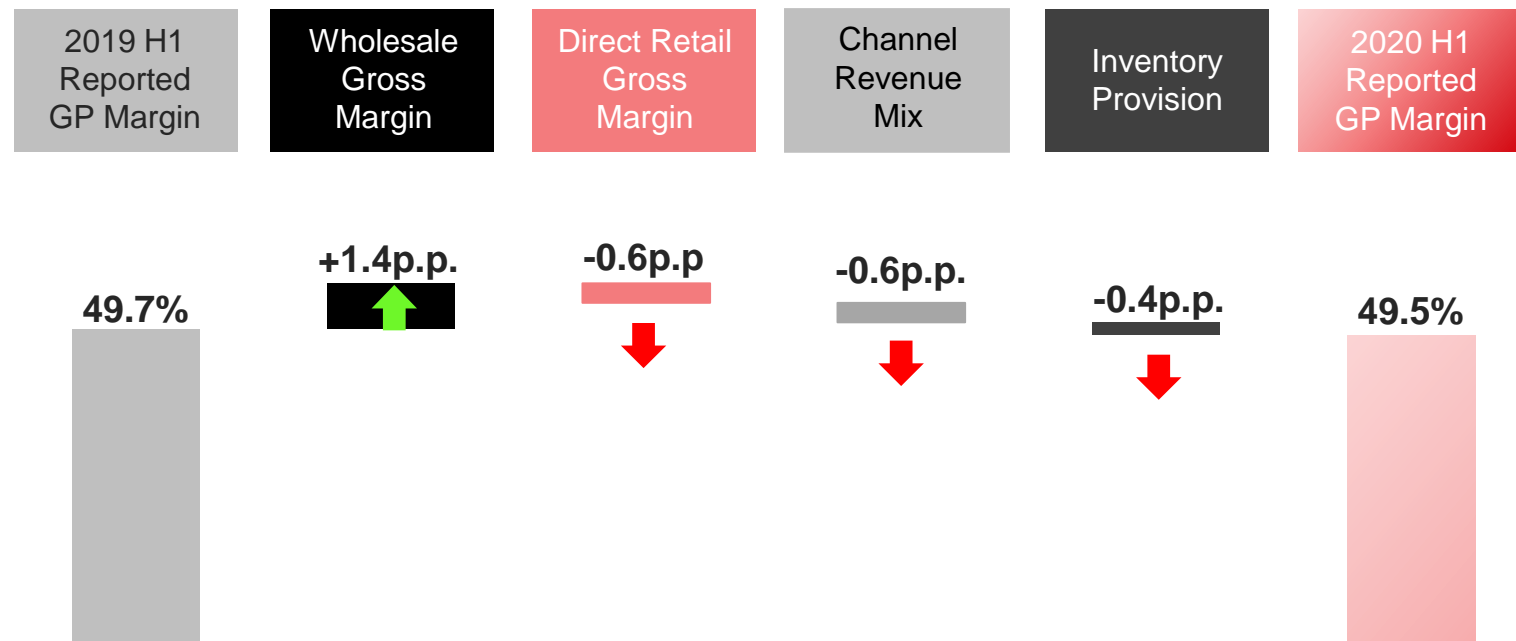


**Direct retail more severely impacted due to much higher mix of store base in metro and high-tier cities**

# LI-NING

## GP Margin Analysis

Net Change in Major Items



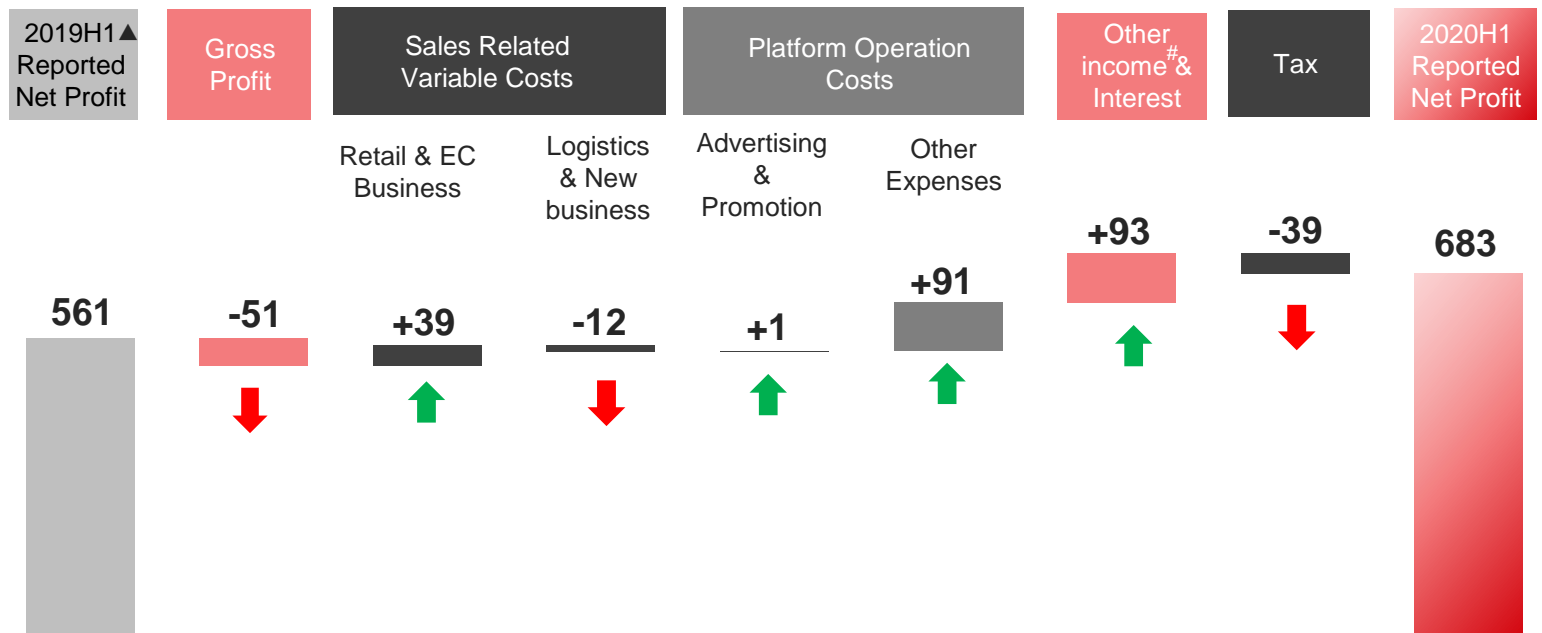
**Increase in IMU (initial mark up) helped mitigate gross margin erosion**

# LI-NING

## Profitability Analysis

### Net Change of Major P&L Items

(RMB Million)

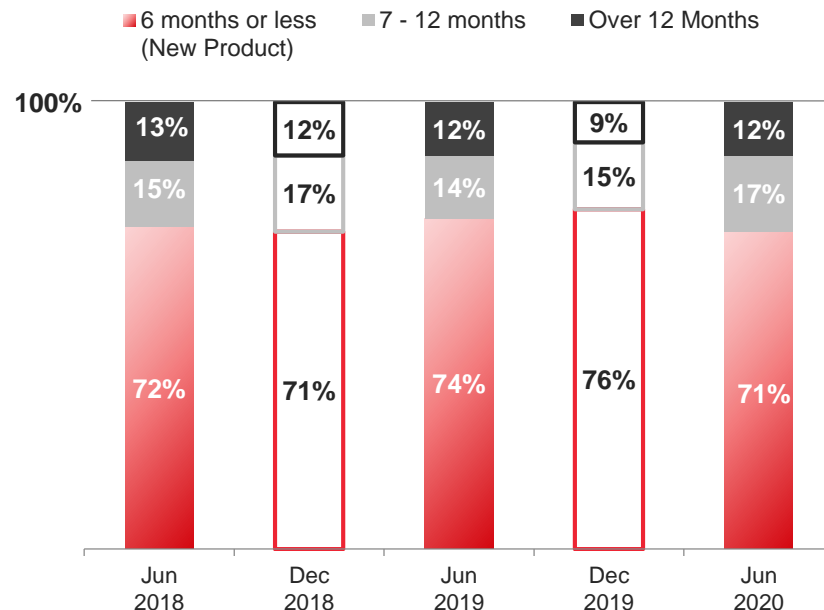
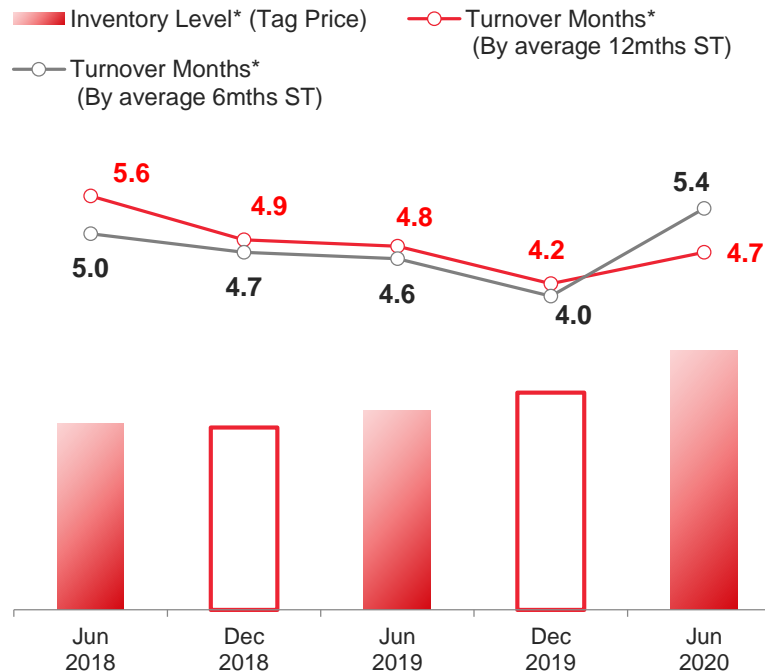


**Scalable cost structure enabled improve operating leverage notwithstanding revenues decline**

# LI-NING

## Channel Inventory

Incl. Online and Offline



**COVID-19 negatively impacted channel inventory turnover efficiency and structure**

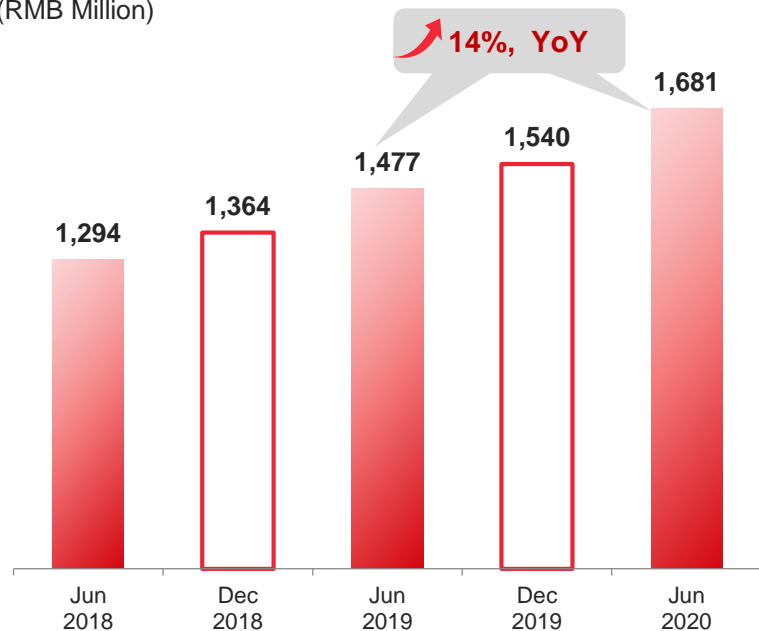
\*Store + Warehouse Inventory



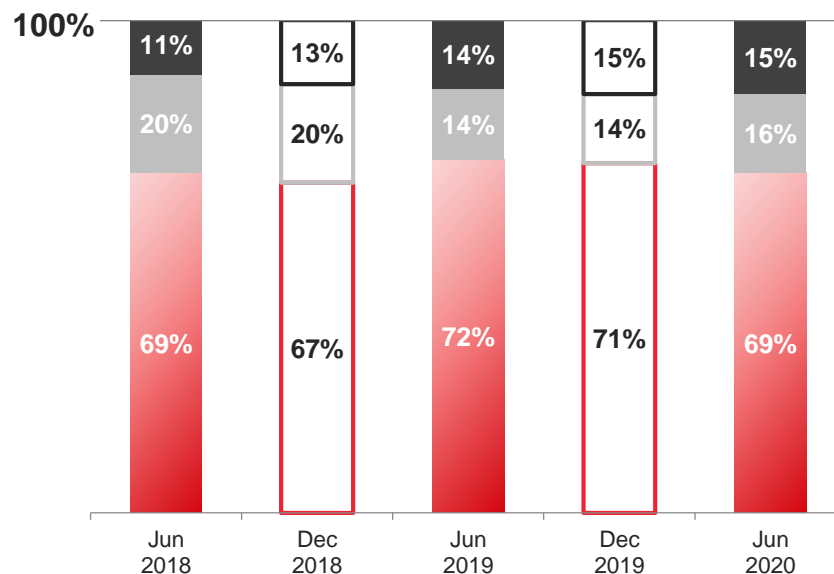
# LI-NING

## Company Inventory

At cost, before provision  
(RMB Million)



■ 6 months or less (New Product) ■ 7 - 12 months ■ over 12 months

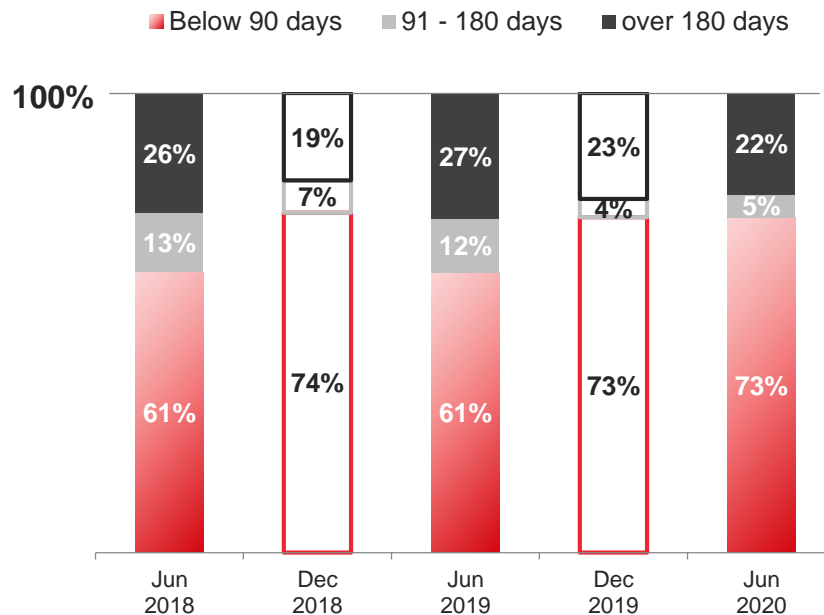
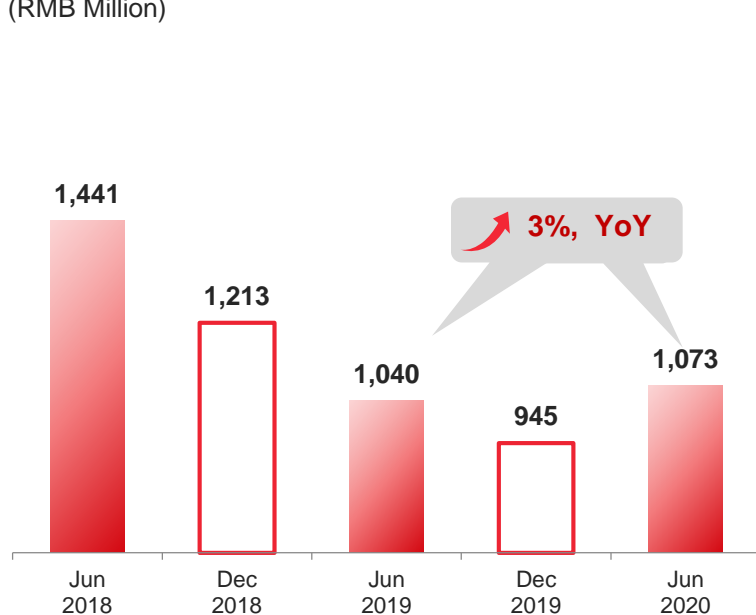


**Short-term challenged in company inventory**

# LI-NING

## Trade Receivables

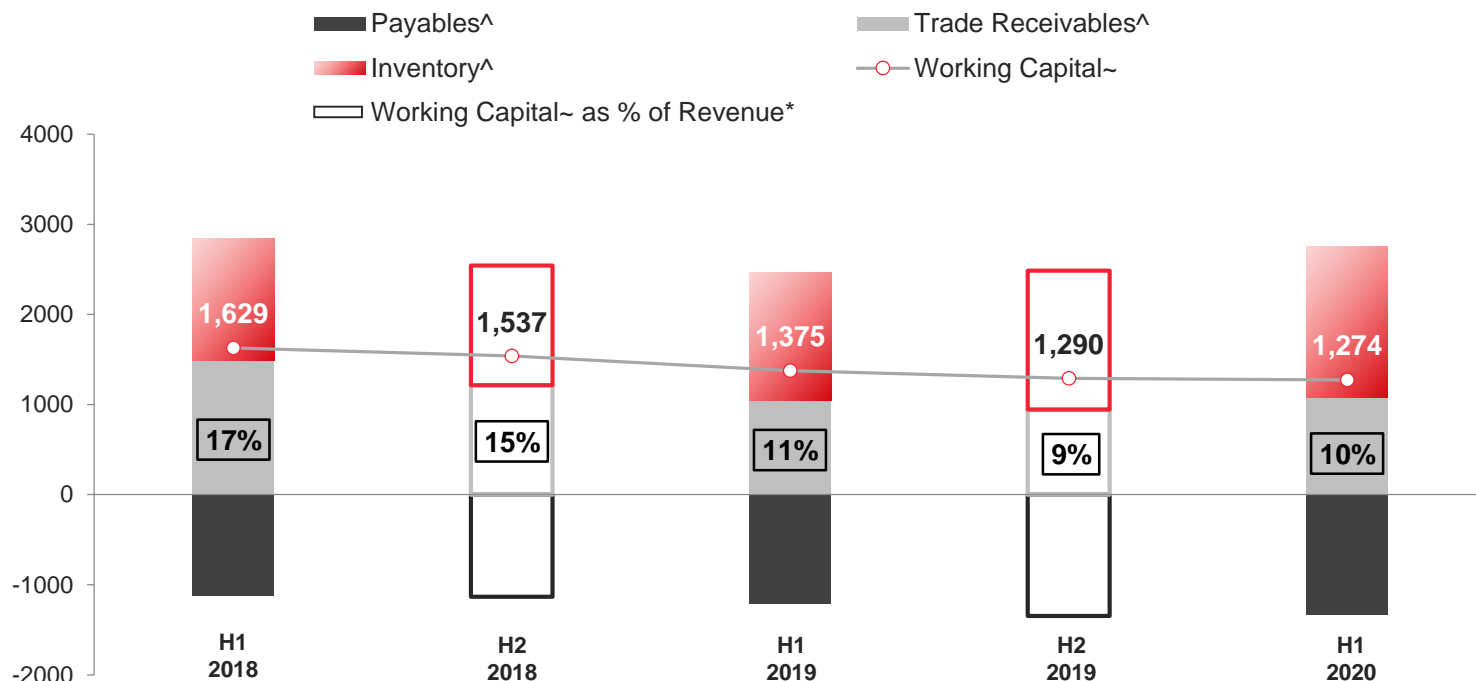
At gross amount, before provision  
(RMB Million)



**Trade receivables in reasonable healthy state**

# LI-NING

## Working Capital Efficiency



**Healthy working capital efficiency well-gearred to capitalize on full recovery**

~Simple average between period opening and ending

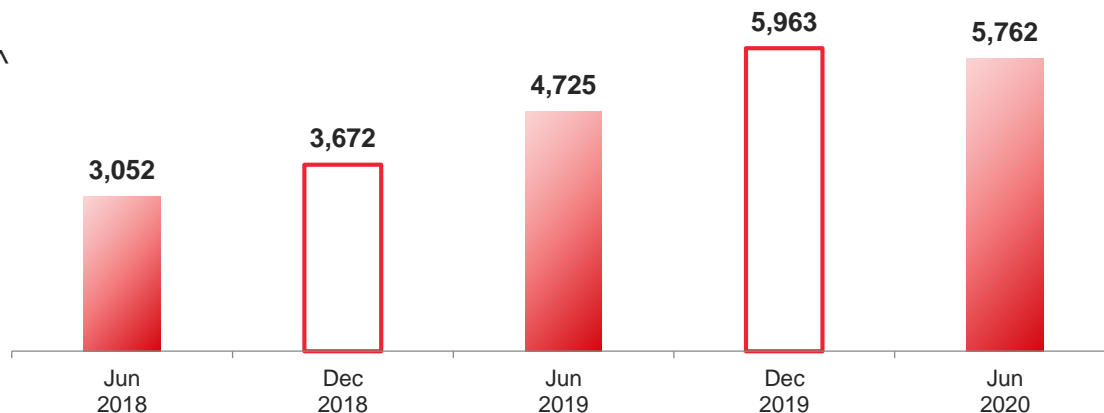
^ Gross Amounts of inventory, trade receivables and payables, without netting off provisions

\* Annualized revenue

# LI-NING

## Balance Sheet Summary and Cash Position

Net Cash Position<sup>^</sup>  
(RMB Million)



-For the Six Months Period-

|                              |     |       |       |       |     |
|------------------------------|-----|-------|-------|-------|-----|
| Cash Conversion Cycle (Days) | 45  | 40    | 32    | 26    | 30  |
| Operating Cash Flow          | 660 | 1,012 | 1,366 | 3,503 | 479 |

<sup>^</sup>Net Cash = Cash and Cash Equivalents (including restricted bank deposits & financial assets at fair value) - Borrowings



# Channel and Retail Capability: Strengthen the Retail Operation “Closed Loop”

## Offline Channel Sales Performance

- Sell-through: mid-teens decrease
- Sales volume: mid-teens decrease

## New Product Performance

- Contribution to total sales: increased 2 .5p.p.
- Sell-through: mid-teens decline

## New Product Sell-out Rate

- 6 mths: declined over 6 p.p.
- 3 mths: declined approximately 5 p.p.



## Offline Channel Sales Efficiency

- Q2 SSSG: mid-teens decline

## Over 12 Months Inventory Mix

- Channel: flat
- Company: increased 1 p.p.

## Operating Cash Flow (YoY)

- Cash flow from operating activities: RMB479 million net inflow, decreased by 65%
- Net cash: increased by RMB 1.037 billion at 5.76billion
- Trade receivables (before provisions): amount increased (declined) by 3%
- Cash conversion cycle: decreased (improved) by 2 days



The background of the slide is a detailed scene depicting the intersection of fashion and science. Two white sneakers with green and blue accents are the central focus, resting on a grid-patterned surface. Surrounding them are various items: a sewing machine with a digital display and a list of stitch patterns, spools of green and orange thread, beakers containing green liquid, and pieces of patterned fabric. The overall lighting is soft, creating a professional and innovative atmosphere.

# *LI NING* Strategic Direction

GRUPO-17

# Seize Industry and Market Trends to Consolidate LI-NING's Experience Value

## National Policies Promulgated to Promote the Continuous Recovery of Sports Industry

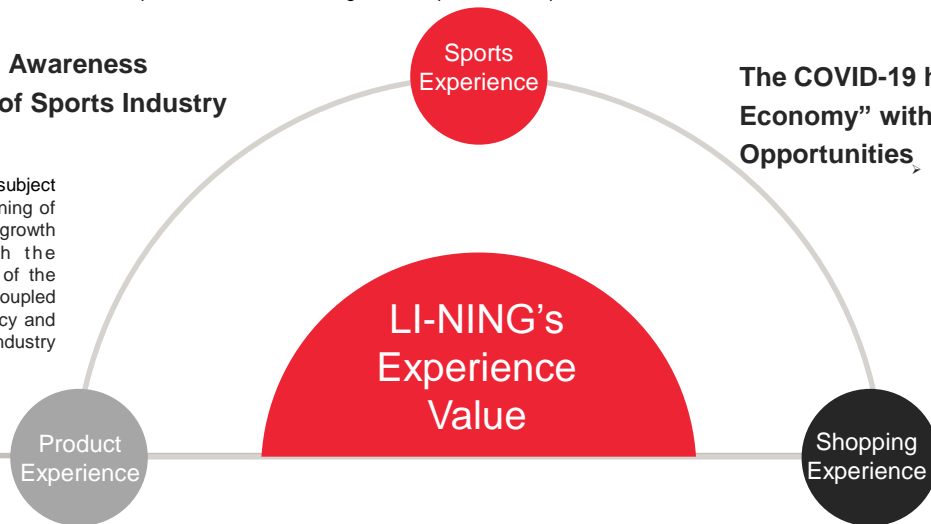
- In order to cope with the impact of the COVID-19 on the sports industry and promote the rebound in sports consumption and unleash the potential, the General Administration of Sport of China issued "The Implementation Plan of the Pilot Work for Promoting Sports Consumption", by identifying a number of pilot cities to promote innovation in sports consumption mechanism, policy innovation, model innovation, product innovation, and promote the sustainable growth of sports consumption.

## Strengthening of National Health Awareness Bodes Well for Long-term Value of Sports Industry

- During the COVID-19, the sports industry was subject to volatility in the short term, but the strengthening of national health awareness will bring promising growth potential to the sports industry. With the breakthroughs in the prevention and control of the COVID-19 and the full resumption of work, coupled with the joint efforts of supportive national policy and industry's operational innovation, the sports industry will usher in a new future.

## The COVID-19 has Spawned "Stay-at-Home Economy" with Domestic Brands Embracing New Opportunities

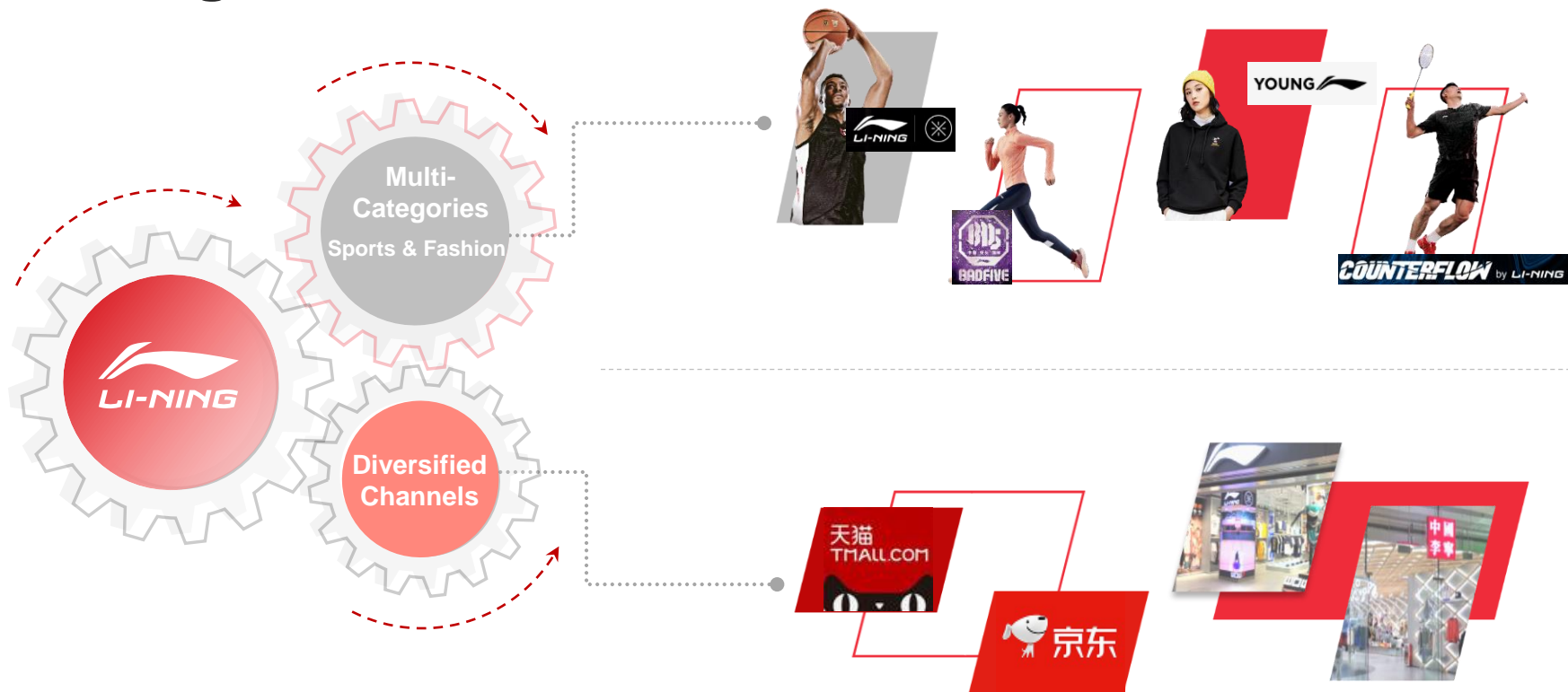
The COVID-19 has impacted on offline and cross-border import consumption, and domestic brands that have been continuously improving their quality have begun to think about the way to break through. As the "stay-at-home economy" has spawned a new round of e-commerce dividends, more and more traditional domestic brands are accelerating their deployment in e-commerce and new retail, actively exploring new business strategies, and seeking new opportunities amid changes.



Source: State Council of the People's Republic of China, General Administration of Sport of China, iResearch Consulting Group, Statista. (Unit: RMB)

# LI-NING

## Adhere to the Strategy of “Single Brand, Multi-categories, Diversified Channels”



# LI-NING

## Core Categories Enhance Brand Resilience

### Retail Sell-through – YoY Change (2020H1)



**Total Value** ↘ 11%



**Running** ↘ 18%



**Training** ↘ 26%



**Basketball** ↘ 18%



**Sports Casual** ↗ 12%



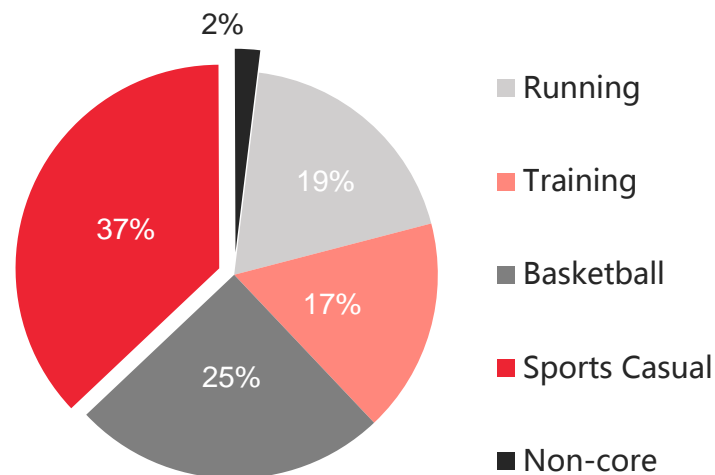
**Non-core** ↘ 13%

### Sell-in – YoY Change (2020H1)



**Badminton + Football\*** ↘ 9%

### Retail Sell-through – Mix



\*Sales of badminton and football products are shown with sell-in data for reference as they are mainly distributed via specialty-stores



# Basketball – Focus on Functional Technology, Leading the Basketball Culture



**Equipped with Technology / Enhance On-Court Performance**

**Diversified marketing / Shine on the Court**

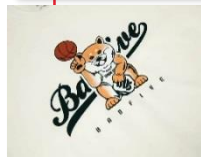
WADE series—  
Signed NBA player  
Russell



Professional basketball—  
CBA fan version game  
uniform



BADFIVE —  
Limited edition  
under City  
series:  
Changsha City



**Discover Culture/  
Lead the Street Basketball**

Combine trend elements with Chinese culture  
Innovative interpretation of  
street basketball



# Running – Strengthen Professional Running Shoes, Enhance Product Matrix

## Professional Runners



**Upgrade product competitiveness with professional technology**

Top technological R&D to enhance professional functionality and product experience

**Tag Price (RMB)**

**Racing Category**

**Sports Protection Category**

1000+



2,099

1,299

1,299

Professional Events

800



539

399

Race Training

300

Shadow 1,699

Shadow Essential 899

Furious Rider 4th Generation 699

Layout of professional running shoes matrix

## Amateur Runners



**Solidify position in mass market Reach Young Consumers**

Multi-product lines create diversified lifestyles



Classic Continuity  
— Super Light 17th

Rising Star  
— Arashi

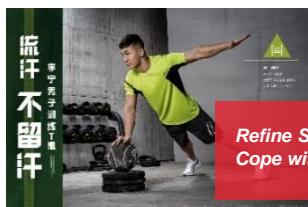
2020 Paris Fashion Week product  
— KUA FU

# LI-NING

## Training – Technological Innovation-Driven, Refined Training Scenarios



Focus on Female Market  
Refined Female Fitness Training Needs



Refine Sports Segments  
Cope with Active Training



"No Boundaries" Training  
Shoes Equipped with  
Multifunctional  
Technology to Support  
Flexible Performance



GYM



Active Training



Essentials



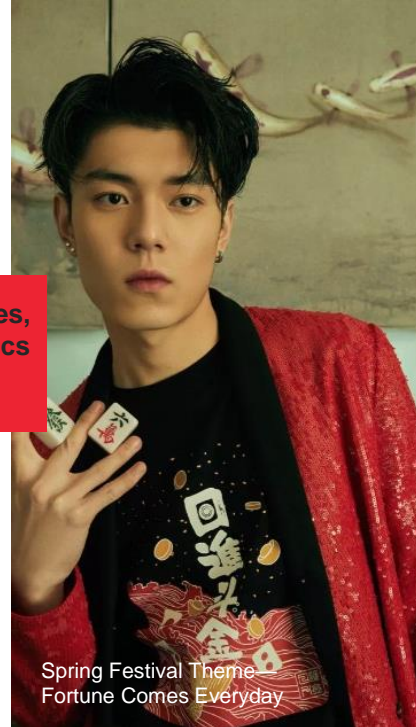
Support of  
Technological  
Innovation



# Sports Casual – Leverage on Sports DNA to Grasp Fashion Trends

Diversified Product Themes,  
Follow Major Events and Hot Topics

Entertainment Marketing, Collaboration with Artists,  
Further Build Up Fan Economy

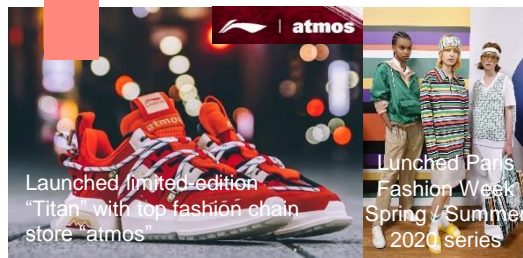


Spring Festival Theme  
Fortune Comes Everyday



Work Resumption Theme—  
Always Ready

Broaden International Perspective ,  
Participate in Global Fashion Stage



Pay Attention to Market Segment,  
Develop Female Business



Cherry blossom edition products under  
China Li-Ning series

LI-NING







# Brand Marketing – Crossover



## DISNEY

Add some "worldly-wise" flavor  
to the cute Mickey Mouse

## Dunhuang Museum

Explore the beauty of  
Dunhuang

## Traditional festival: Dragon Boat Festival

Launch "Wave BOOT-Duanwu" edition  
Incorporate traditions of the Dragon Boat Festival



## QQ Dance

Create "New Retro-Futurism"



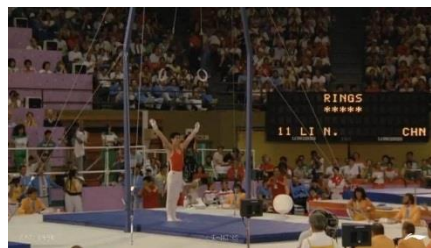
# LI-NING

## Brand Marketing – Fashion Week: To Be Continued



### Digital Paris Men's Fashion Week | Game Starts, Click to Join

On the 30th anniversary of the brand's founding, the short film "Game Starts", which spans the past and the future, was released at the 2021 Spring/Summer "Digital Paris Men's Fashion Week", bringing together important historical moments of the brand, at the same time offering a glimpse of China Li-Ning Spring/Summer 2021 series .



Gymnast Li Ning  
Barcelona Olympics / 1984



To be continued .....



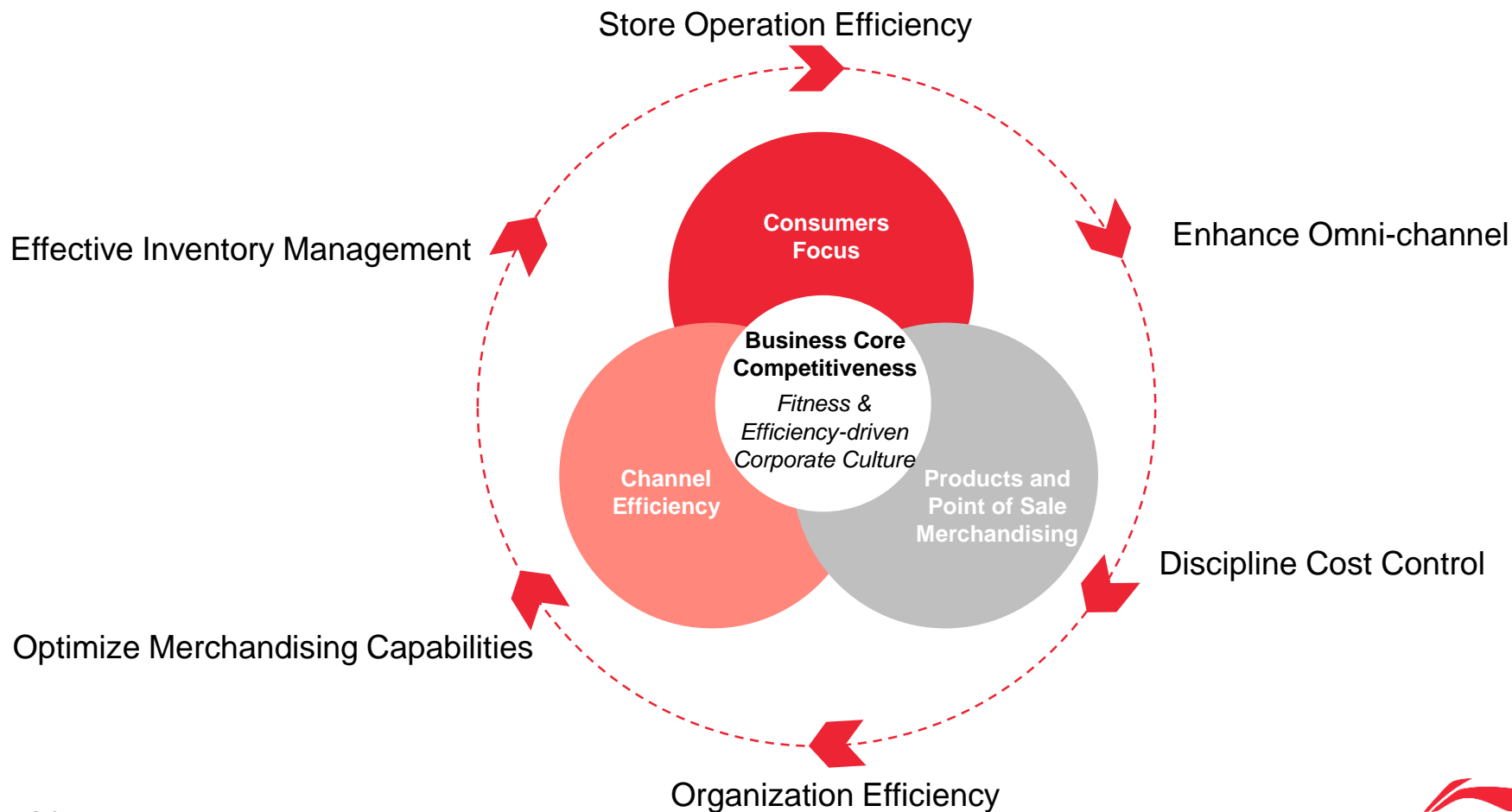


# *LI NING* Operational Progress



LI-NING-17

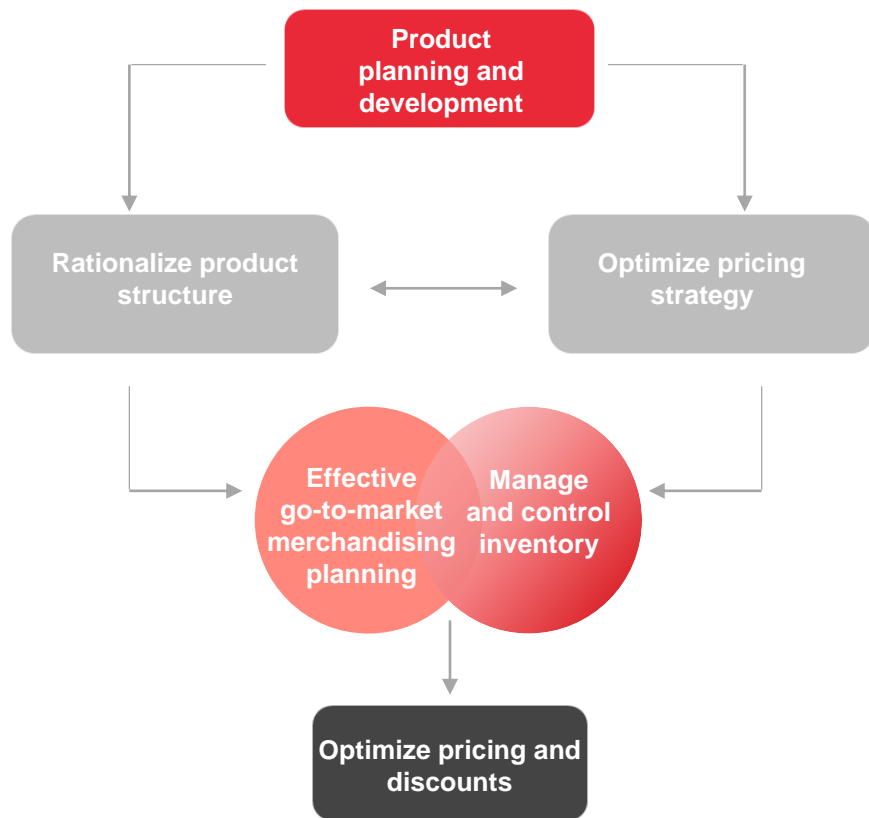
# Business Core Competitiveness





# LI-NING

## Product Strategy Initiatives

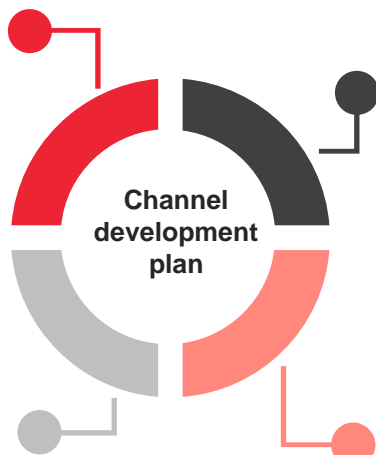


**To improve the efficiency of product operation as the goal:**

- Integrate product functions
- Adjust product architecture
  - Integrate product architecture in terms of the “depth and width” of products
  - Plan and trim the number of fabric types, patterns and colors

# Channel Expansion Strategy Initiatives

Channel upgrade  
and optimization



Strengthen  
flagship store

Upgrade visual  
merchandising

Refine big store  
operating model

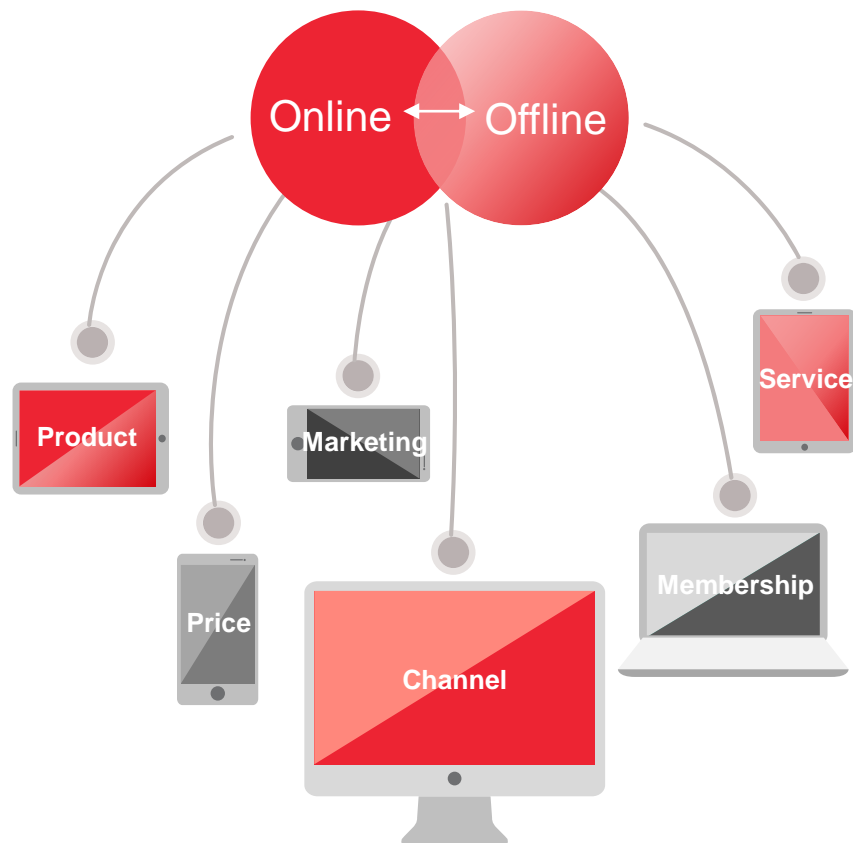
## Channel layout based on the profitability and efficiency of single store:

- Ensure the unity and continuity of channel management
- Wholesale and direct-retail business are planned separately for multi-tier markets
- Store image upgrade
- Persist in the establishment of big store with high efficiency

# Omni-channel Strategy Initiatives

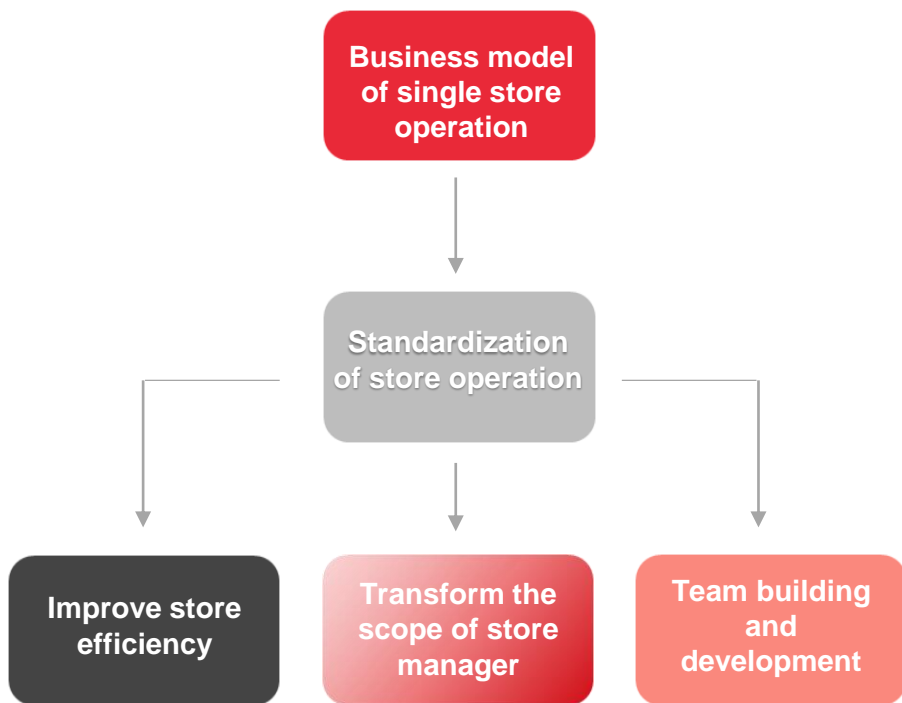
**Continue to develop e-commerce channel to integrate online and offline:**

- Unify e-commerce business system
- Improve resource sharing efficiency



# LI-NING

## Store Operation Strategy Initiatives



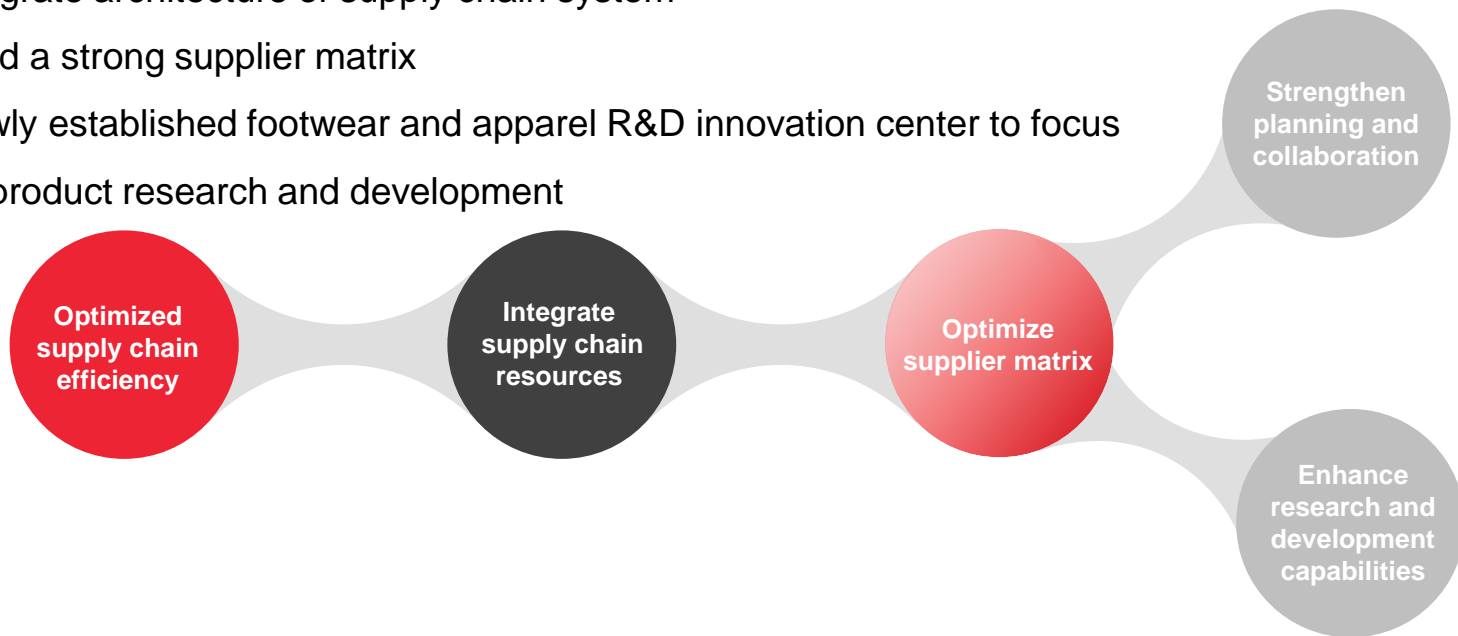
### Establish single store operating model with high efficiency and high productivity :

- Adjust operational architecture of sales system
  - Separation of wholesale and direct retail business
  - Establish a headquarter platform to link various functional departments
- Focus on store operation indicators

# LI-NING Supply Chain Strategy Initiatives

## Achieving the transition from passive to proactive production:

- Integrate architecture of supply chain system
- Build a strong supplier matrix
- Newly established footwear and apparel R&D innovation center to focus on product research and development





# LI-NING Open Forum



BADFIVE

LI-NING

# Appendix 1 — Summary of Income Statement and Balance Sheet

| (RMB million)                         | 2020                    | 2019   | Better/<br>(Worse) |
|---------------------------------------|-------------------------|--------|--------------------|
|                                       | Period ended<br>30 June |        |                    |
| Revenue                               | 6,181                   | 6,255  | (1.2%)             |
| Gross Profit                          | 3,057                   | 3,108  | (1.6%)             |
| Distribution costs                    | -1,949                  | -2,023 | 3.7%               |
| Administrative expenses               | -346                    | -451   | 23.2%              |
| Other income and other gains – net    | 161                     | 44     | 262.3%             |
| Operating Profit                      | 898                     | 678    | 32.4%              |
| EBITDA                                | 1,408                   | 1,353  | 4.1%               |
| Profit Attributable to Equity Holders | 683                     | 795    | (14.1%)            |
| Basic Earnings per share (RMB cents)  | 27.98                   | 32.88  | (14.9%)            |

| (RMB million)                              | 30 June<br>2020 | 31 Dec<br>2019 | Better/<br>(Worse) |
|--|-----------------|----------------|--------------------|
| Cash and Cash Equivalents                  | 5,561           | 5,961          | (6.7%)             |
| Borrowings                                 | 0               | 0              | N/A                |
| Net Cash*                                  | 5,762           | 5,963          | (3.4%)             |
| Current Liabilities                        | 4,413           | 4,717          | 6.4%               |
| Current Ratio (times)                      | 1.9             | 1.8            | 0.1                |
| Total Liabilities to<br>Total Assets Ratio | 40%             | 43%            | 3.0p.p.            |

— 41 — \*Net cash = Cash and Cash Equivalents (including restricted bank deposits & financial assets at fair value) – Borrowings



# Appendix 2 — Profit Margins and Key Operating Indicators

|  | 2020                    | 2019  | Better/<br>(Worse) |
|--|-------------------------|-------|--------------------|
|  | Period ended<br>30 June |       |                    |
| Gross Profit Margin                                | 49.5%                   | 49.7% | (0.2p.p.)          |
| Operating Profit Margin                            | 14.5%                   | 10.8% | 3.7p.p.            |
| EBITDA Margin                                      | 22.8%                   | 21.6% | 1.2p.p.            |
| Margin of Profit<br>Attributable to Equity Holders | 11.1%                   | 12.7% | (1.6p.p.)          |
| R&D Expenses (as % of revenue)                     | 2.2%                    | 2.1%  | (0.1p.p.)          |
| A&P Expenses (as % of revenue)                     | 9.0%                    | 8.9%  | (0.1p.p.)          |
| Staff Costs (as % of revenue)                      | 10.1%                   | 11.6% | 1.5p.p.            |

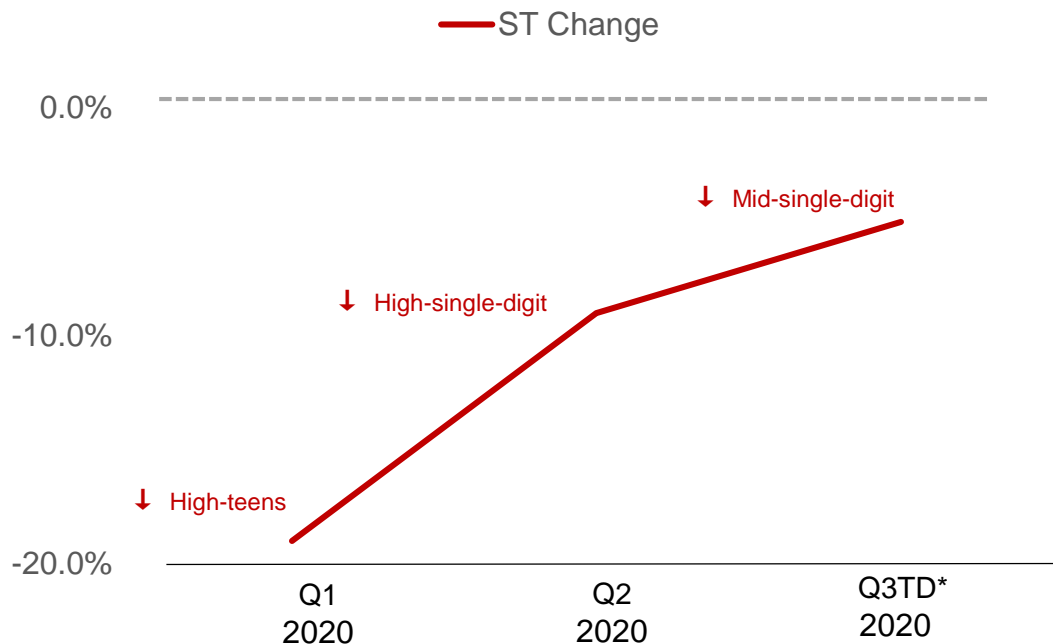
|                                   | 2020                    | 2019  | Better/<br>(Worse) |
|-----------------------------------|-------------------------|-------|--------------------|
|                                   | Period ended<br>30 June |       |                    |
| Inventory Turnover (Days)         | 84                      | 74    | (10)               |
| Trade Receivables Turnover (Days) | 22                      | 24    | 2                  |
| Trade Payables Turnover (Days)    | 76                      | 66    | 10                 |
| Cash Conversion Cycle (Days)      | 30                      | 32    | 2                  |
| Return on Equity (ROE)            | 9.3%                    | 13.0% | (3.7%)             |
| Return on Asset (ROA)             | 5.4%                    | 8.1%  | (2.7%)             |
| CAPEX (RMB million)               | 222                     | 236   | 5.9%               |



# Appendix 3 — Wholesale Business<sup>^</sup>

LN Brand, excl. International market sales and LN YOUNG

## Impact of COVID-19 on Sell-through, YoY%



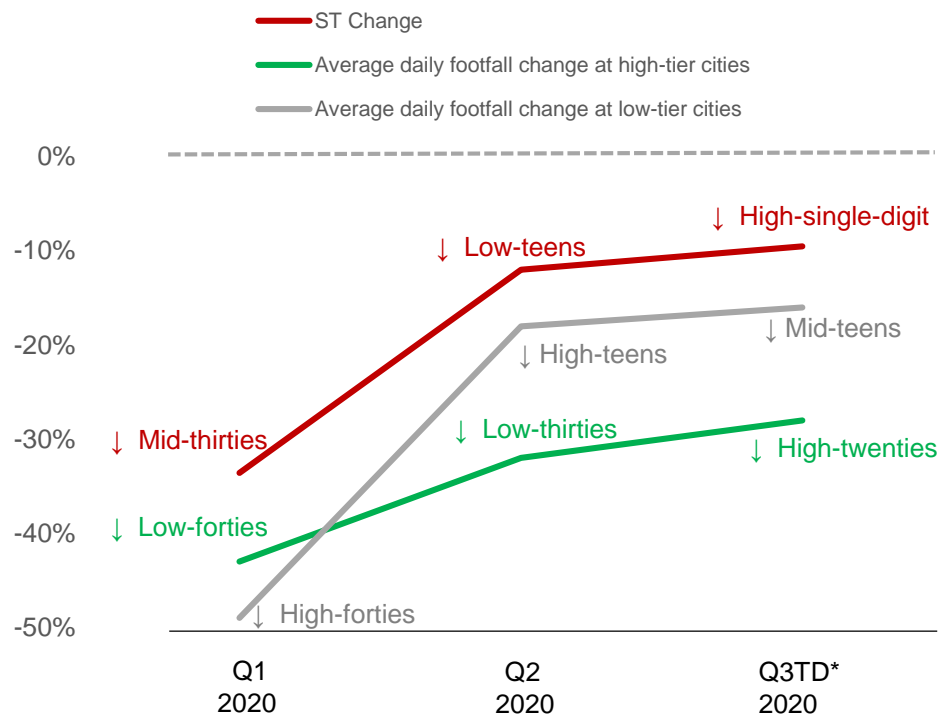
<sup>^</sup> Including product sales of badminton and football categories from specialty-stores.

\* As of Aug 9<sup>th</sup>, 2020

# Appendix 4 — Retail Business<sup>^</sup>

LN Brand

Impact of COVID-19 on Sell-through and Average Daily Footfall<sup>#</sup>, YoY %



<sup>^</sup> Refers to direct retail operation , excluded LN YOUNG stores

<sup>#</sup> Daily footfall data is based on our store traffic tracker where available

\* As of Aug 9<sup>th</sup>, 2020