Vaibhav Global Limited

Global Retailer of Fashion and Lifestyle Accessories on Home TV and e-Commerce Platforms

Financial Results Presentation
Q4 & FY15

May 2015

Safe Harbor

Certain statements in this document may be forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties like regulatory changes, local political or economic developments, and many other factors that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statements. Vaibhav Global Limited will not be in any way responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

VGL Overview

Vertically-integrated electronic retailer

- End-to-end B2C business model in the electronic retail industry
- Proprietary TV home-shopping and e-commerce platforms

Liquidation Channel and The Jewellery Channel are strong brands

- 100 million (FTE) households on TV shopping in the US, UK and Canada
- Positive customer engagement metrics – customer base, retention rate, repeat purchases

Robust customer engagement

- Sizeable B2C franchise in developed markets
- Growing recognition of deep value enables scaling to adjacent categories

Hybrid supply chain infrastructure

- Outsourcing from China, Thailand, Indonesia and India, manufacturing operations in Jaipur, India
- Aggressive trend spotting initiatives

Solid infrastructure backbone

- Investments in customer interface, production, warehousing facilities, supply chain and CRM
- Low opex model is scalable with limited capex requirement

Strong management team

- Professional, experienced management team having in-depth knowledge and industry experience
- Talent pool across marketing, merchandising, operations, technical and strategy functions

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Key Highlights for Q4 & FY15

Home TV Network Reaches Over 100 Million Households, FTE Increases 5%

- 100 million households on full time equivalent (FTE) basis
- 72 million households in the US
- 25 million households in the UK
- 2.3 million households in Canada

In FY15, Retail Volumes Improve 4.4% YoY to 9.8 Million Units

- 6.3% higher volumes on Home TV shopping
- Flat volume on Web shopping at 3 million
- Volume growth driven by Fashion Jewelry
- Deeper customer engagement drives repeat purchases

Financial Performance

- FY15 Total Income higher by 6% at Rs. 1,376 crore YoY
- EBITDA increased by 5.7% at Rs. 35 crore in Q4 FY15
- PAT at Rs. 17.6 crore in Q4 FY15
- EPS of Rs. 5.45 in Q4 FY15 & Rs 32 for FY15

Strong Returns on Investments

- Return on Equity at 31%
- Return on Capital Employed at 44%

Operating Highlights

- USA Call Center Outsourced – training/integration process successfully executed
- Next Generation TV Auction/Scheduling/Customer Service software launched and integrated at Liquidation Channel
- Competitor intensity still high. Offers of instalment payment and free shipping giving them completive benefit
- We are trying to diversify into other categories but it may take another 2-3 quarters to come to fruition
- Hybris / M-commerce in UAT phase and to be launched soon

Debt Repayment from Operating Cash Flows

- Free Cash Flow in FY15 Rs. 106 crore
- Term loans fully repaid in Q4, Net Debt at Rs. (20) crore in Q4FY15 as compared to Rs. 52 crore in Q4FY14

Chairman's Message

Commenting on Q4 & FY15 performance, Mr. Sunil Agrawal, Chairman and Managing Director, Vaibhav Global said:

"During the year, we made some key investments to further strengthen our operations that we believe will cement our position as a global retailer of high repute. We outsourced the call center operation which has helped improve efficiencies and freed up some management bandwidth. We also implemented a SAP-based HYBRIS platform and upgraded the TV business management platform in our US operations. These initiatives are helping us deepen our engagement with customers.

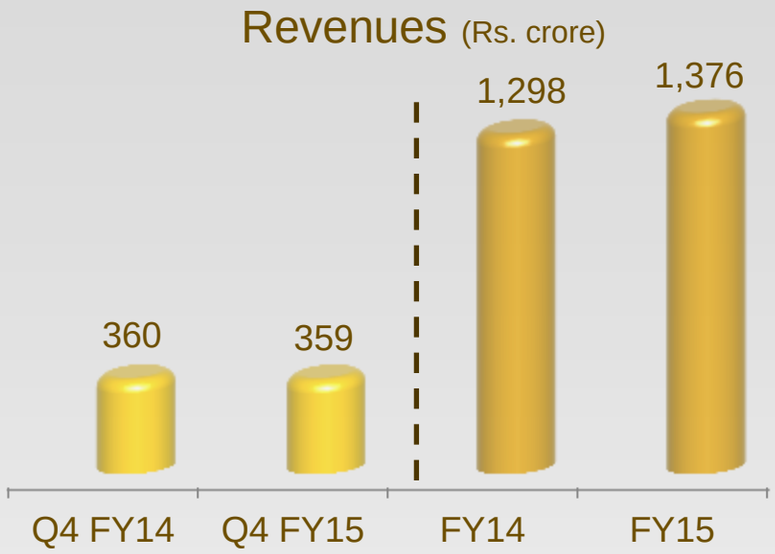
The business focus is on profitable growth and robust cash flows. Free cash flow of Rs. 106 crore was generated in FY2015, which enabled us to become a zero net debt company. We returned to the list of dividend paying companies by paying an interim dividend of Rs 2.89 per share. However, we were unable to declare final dividend due to recent amendments in Companies Act 2013 which required past losses to be fully set off against current year's profit before declaring dividend. The company will be undertaking a Capital Restructuring exercise in order to declare dividend in FY16. We continue to maintain robust return ratios, ROE and ROCE for the year remained strong at 31% and 44%.

We continue to judiciously upgrade our customer initiatives and the next significant opportunity comes from the launch of our mobile app for the US market planned in the coming months. This will soon give us access to a whole new client base and a new medium for reaching out to our existing loyal customers.

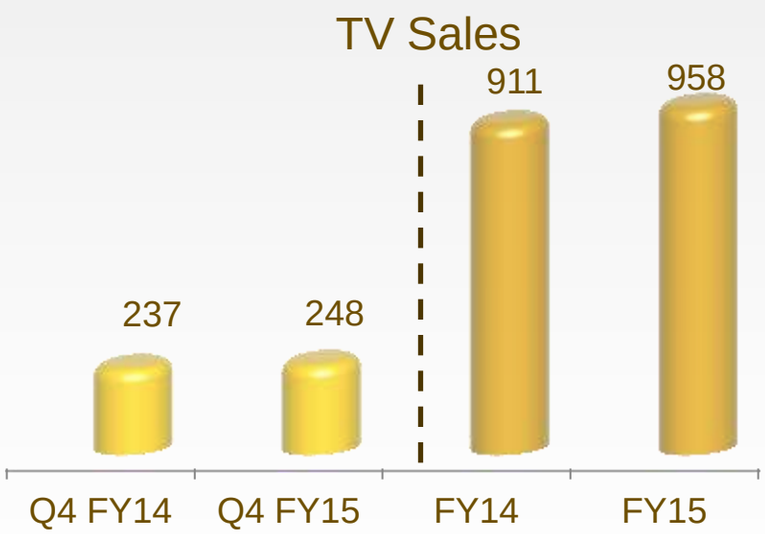
Looking ahead, we are confident that the operational and financial transformations of the last year will help us deliver on the next level of growth in our business."

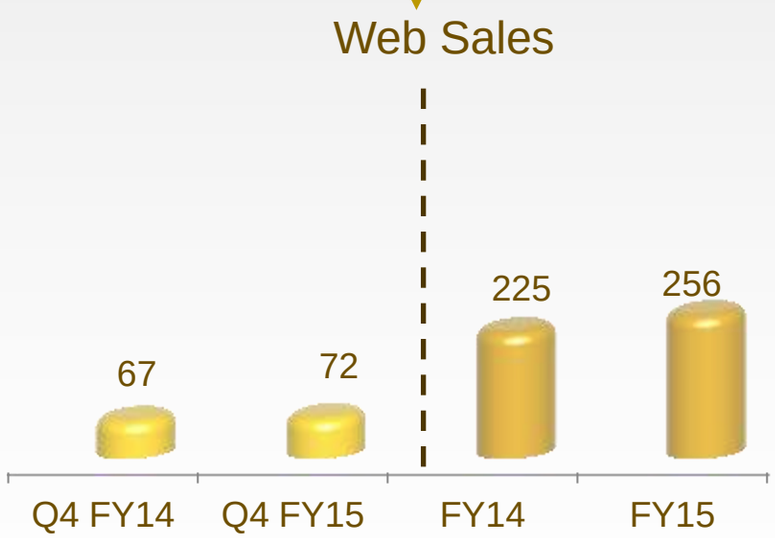
Financials – Q4 & FY15 Performance

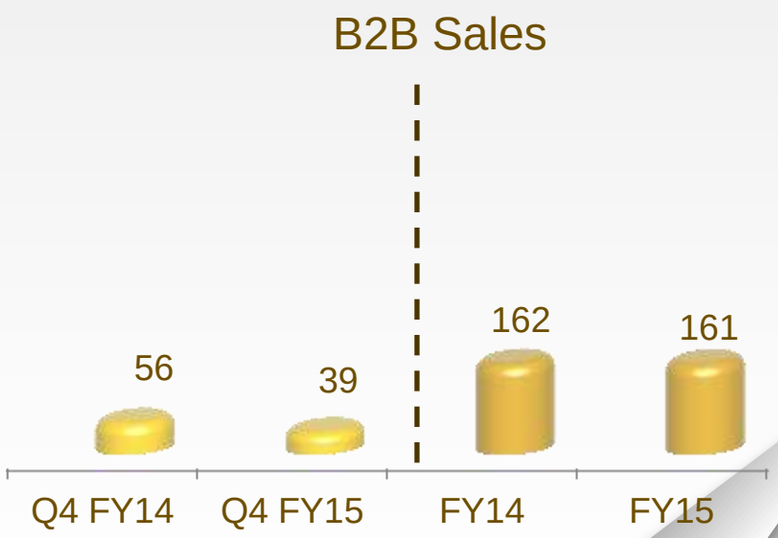
(Revenues)



Jewelry & Lifestyle Products

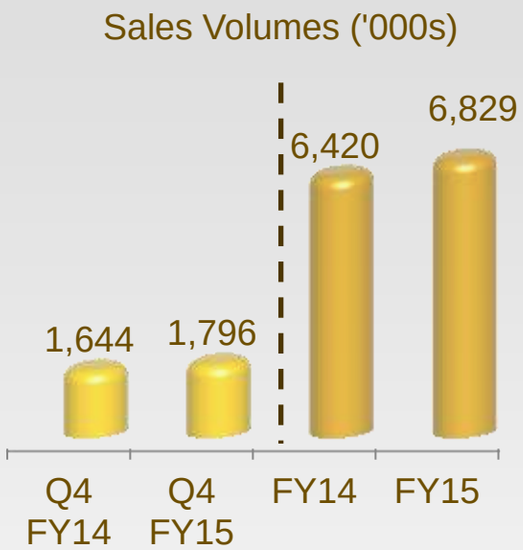


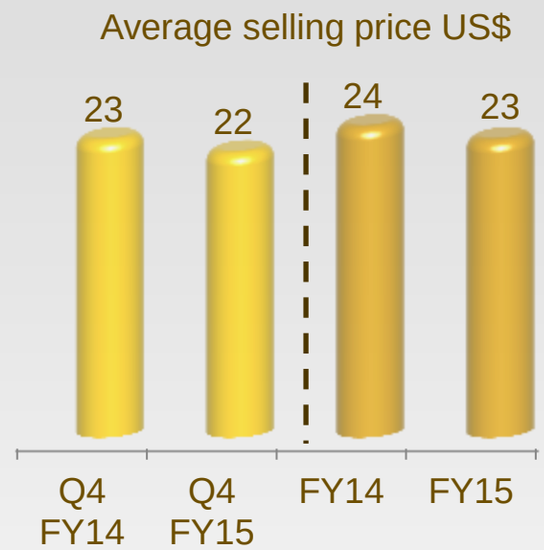




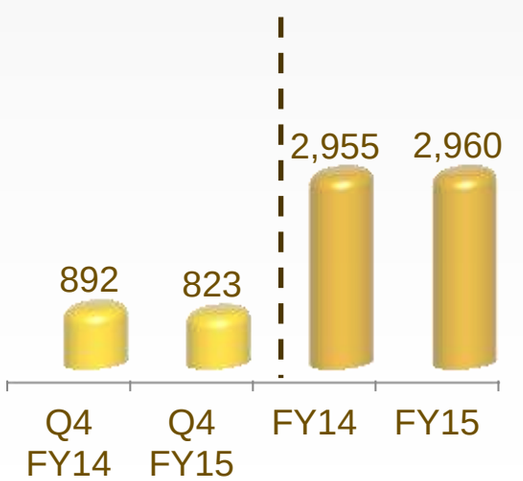
Retail Performance Trends

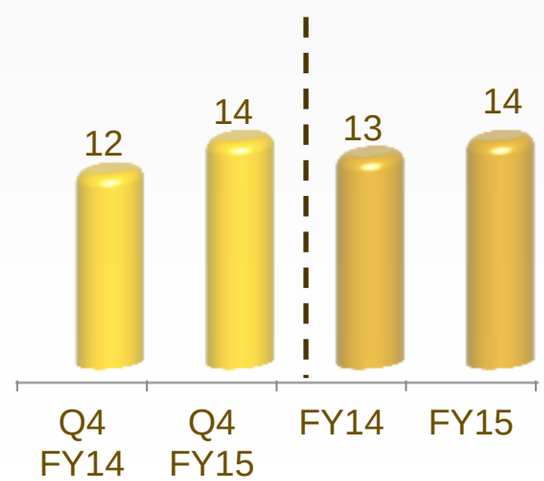
TV Sales





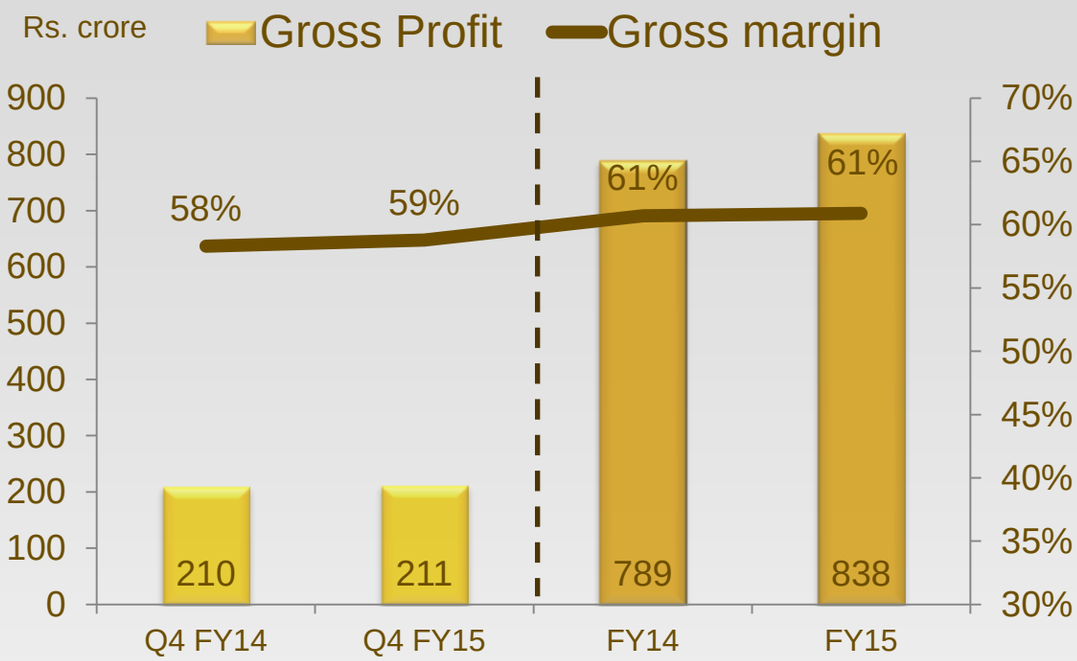
Web Sales





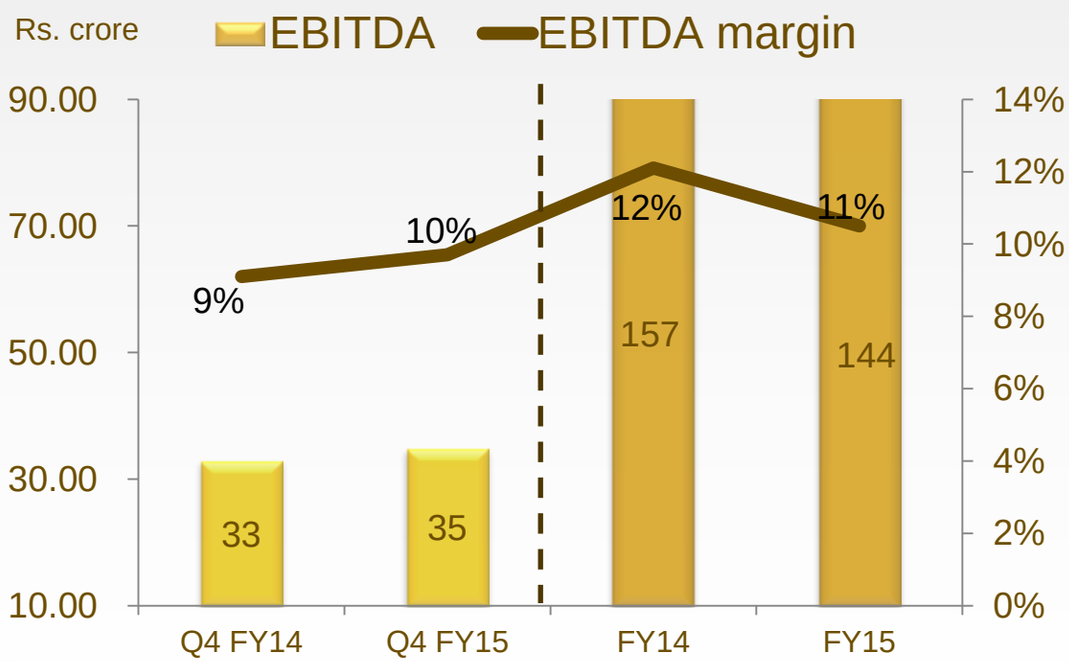
- Web sales now contribute 30% of sales volume in FY15.
- Volume growth driven by expansion of fashion jewelry and lifestyle accessories lines within the existing household coverage and reduction in average selling price.

Financials – Q4 & FY15 Performance
(Margins)



Note: Direct costs for calculation of gross profit includes material cost, job work charges and manufacturing cost

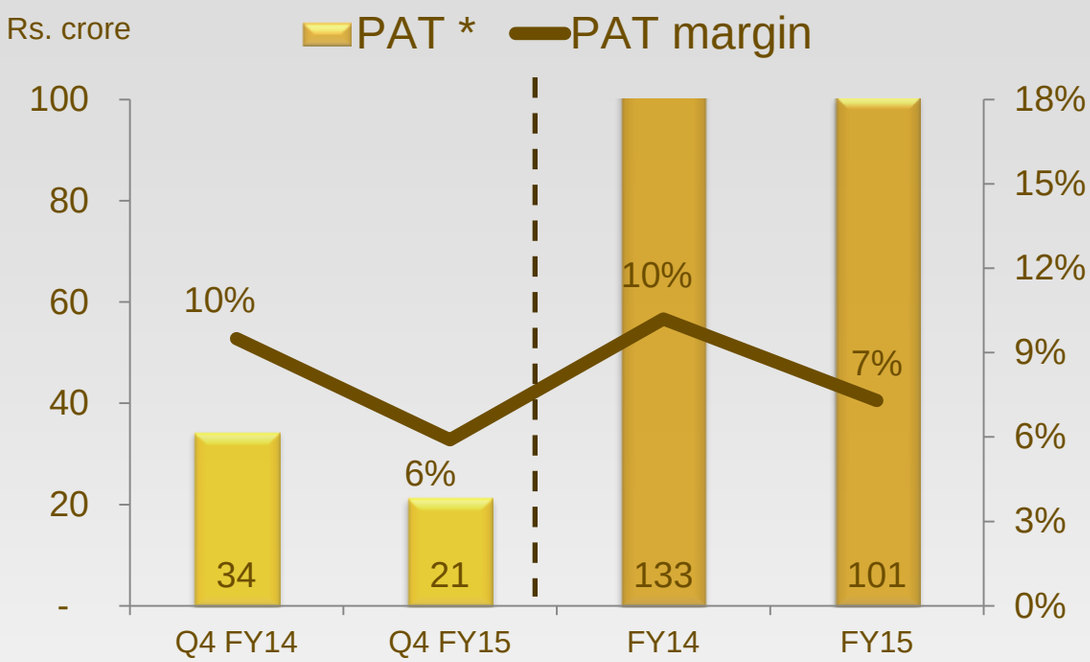
- Gross margins largely stable.



Note:
EBIDTA excludes exchange gain/loss;
EBIDTA margin including exchange gain/loss stood at 10.7% in FY15 v/s 13.7% in FY14
EBIDTA margin including exchange gain/loss stood at 8.7% in Q4 FY15 v/s 9.8% in Q4 FY14

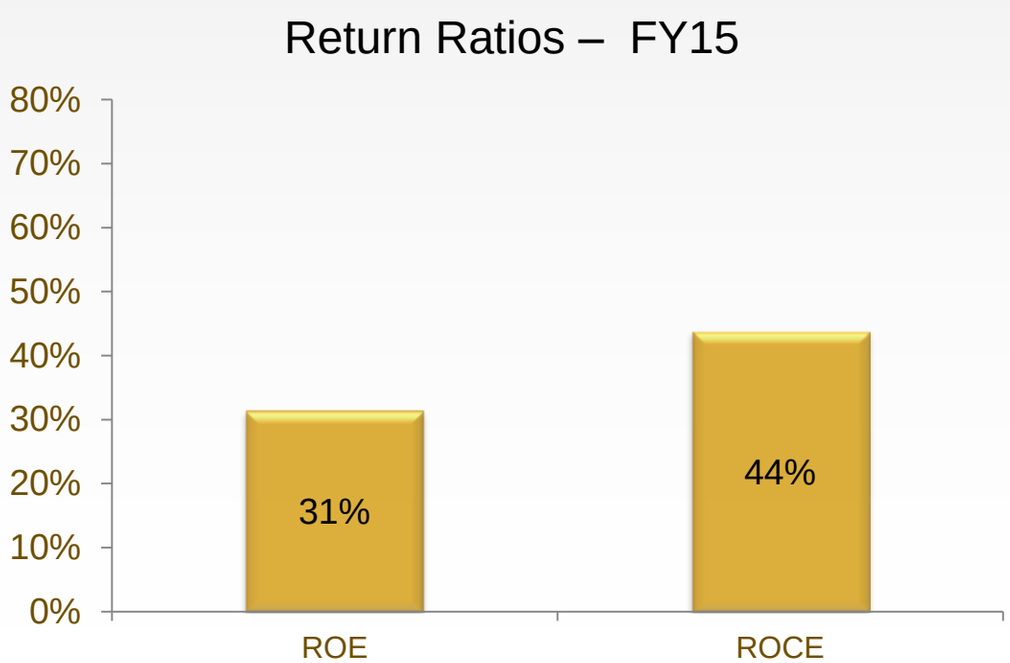
- EBITDA impacted due to additional costs of US call center, more households in US, larger manpower in planning, logistics, merchandising and sales in US and UK.

Financials – Q4 & FY15 Performance
(Profits)



* Profit after tax without exchange gain(loss) fluctuation.

- PAT is lower due to higher tax and depreciation cost.



- Maintain high returns on capital employed and shareholders' equity.

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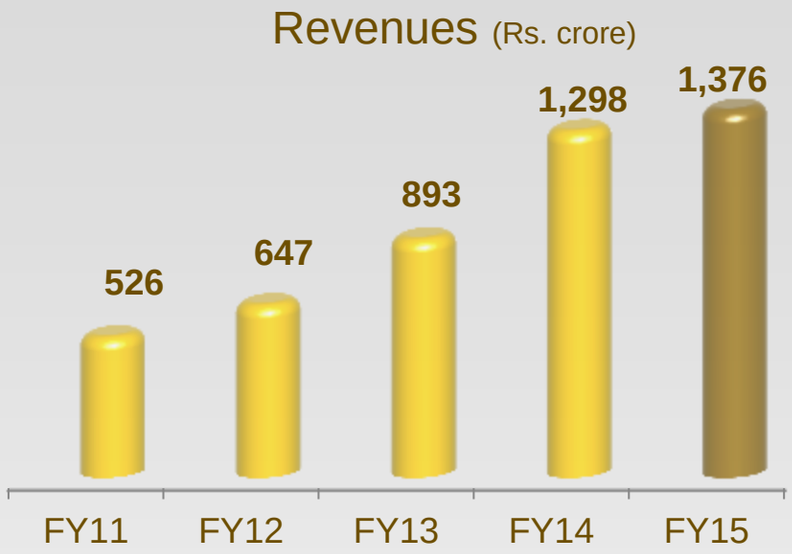
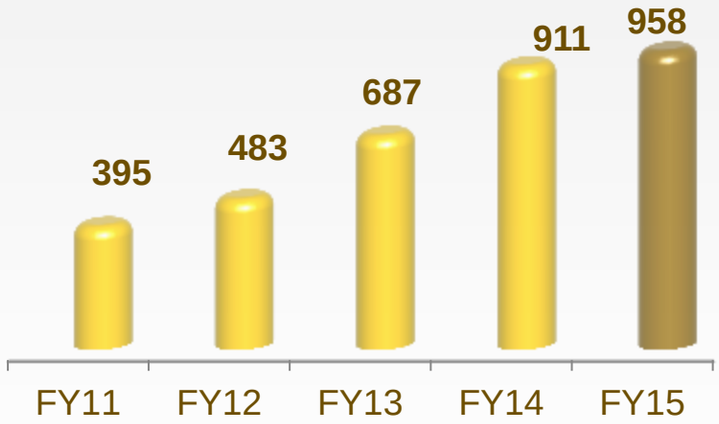
Financials Performance Trends

(Revenues)

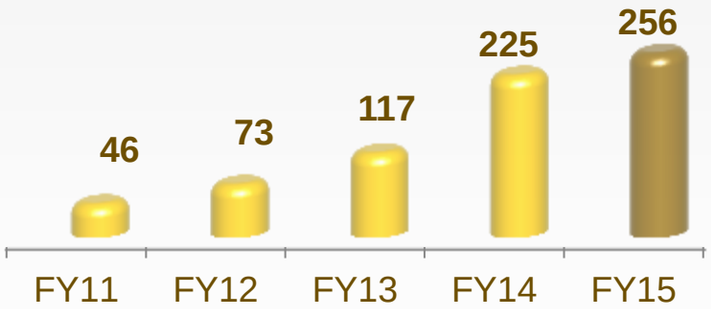


Jewelry & Lifestyle Products

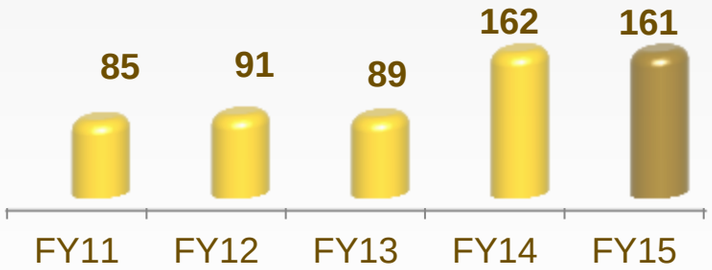
TV Sales



Web Sales

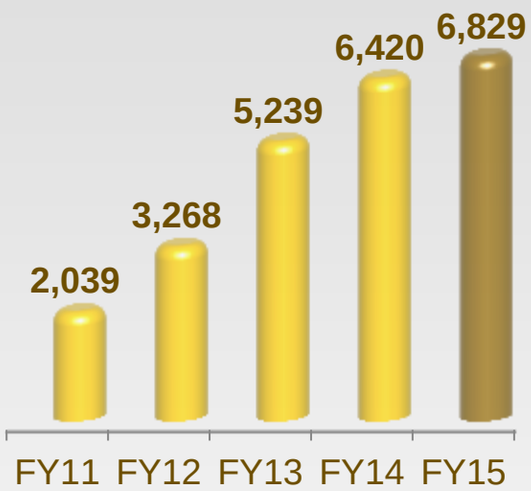


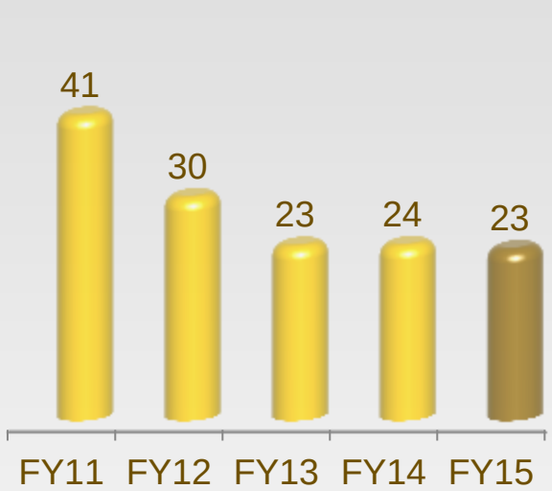
B2B Sales



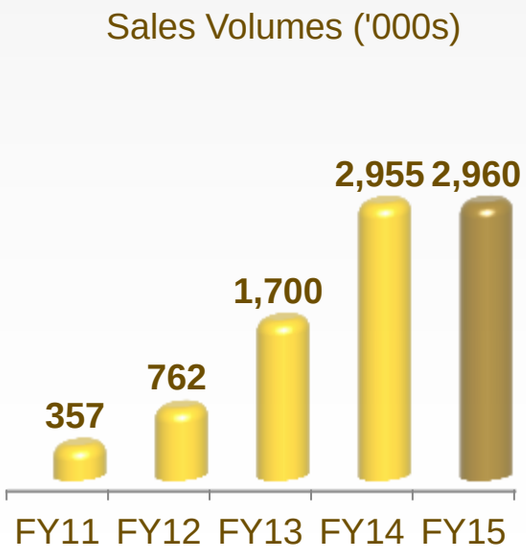
Retail Performance Trends

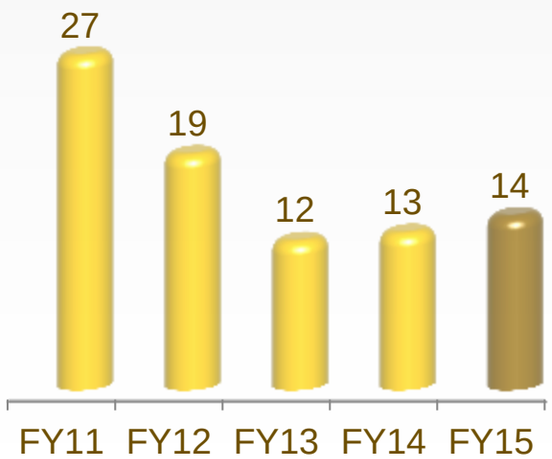
TV Sales





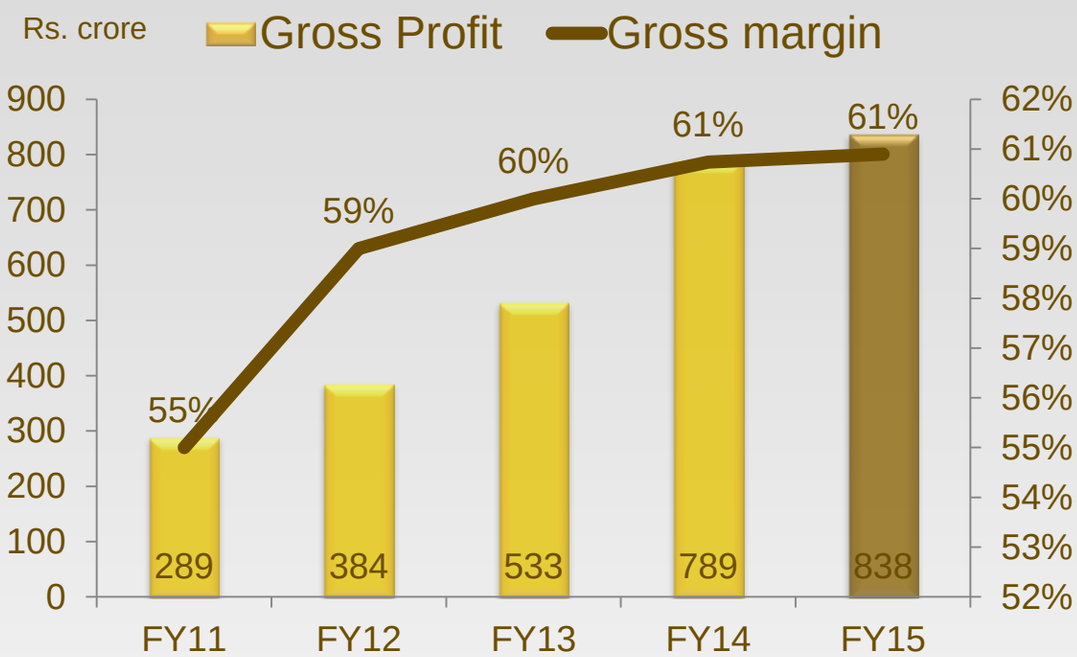
Web Sales



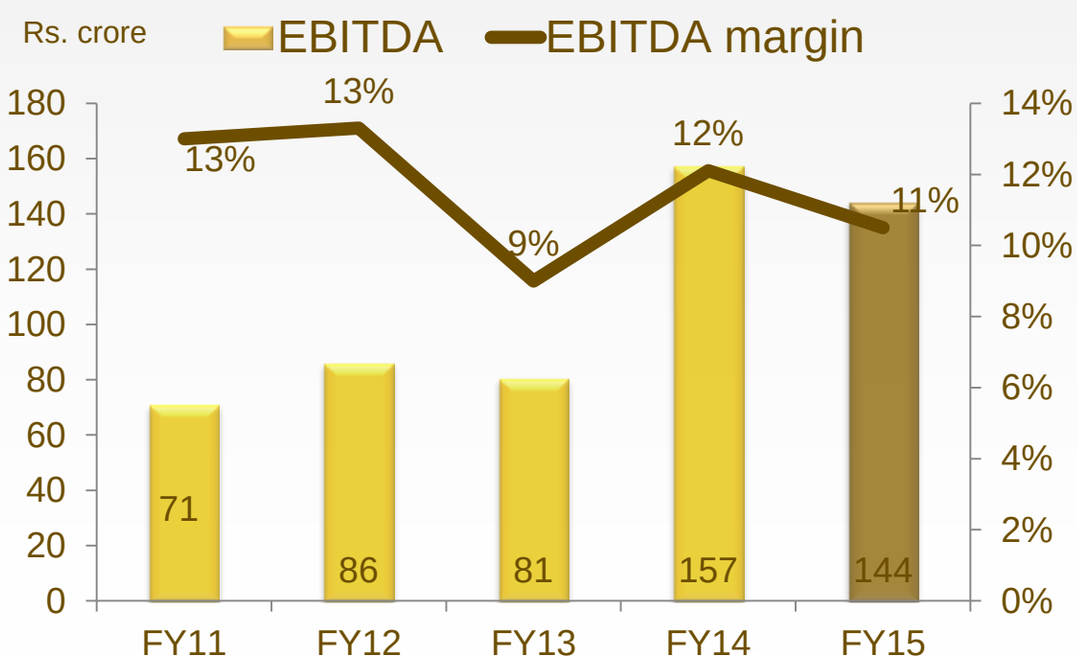


- Good volume growth driven by strong customer engagement
- ASP has been stable even with portfolio transition from fine jewelry to fashion jewelry and accessories
- Internet sales volumes complement TV shopping and create a balanced portfolio

Financials Performance Trends
(Margins)



- Gross margins improved from 55% to 61% over a period of 5 years

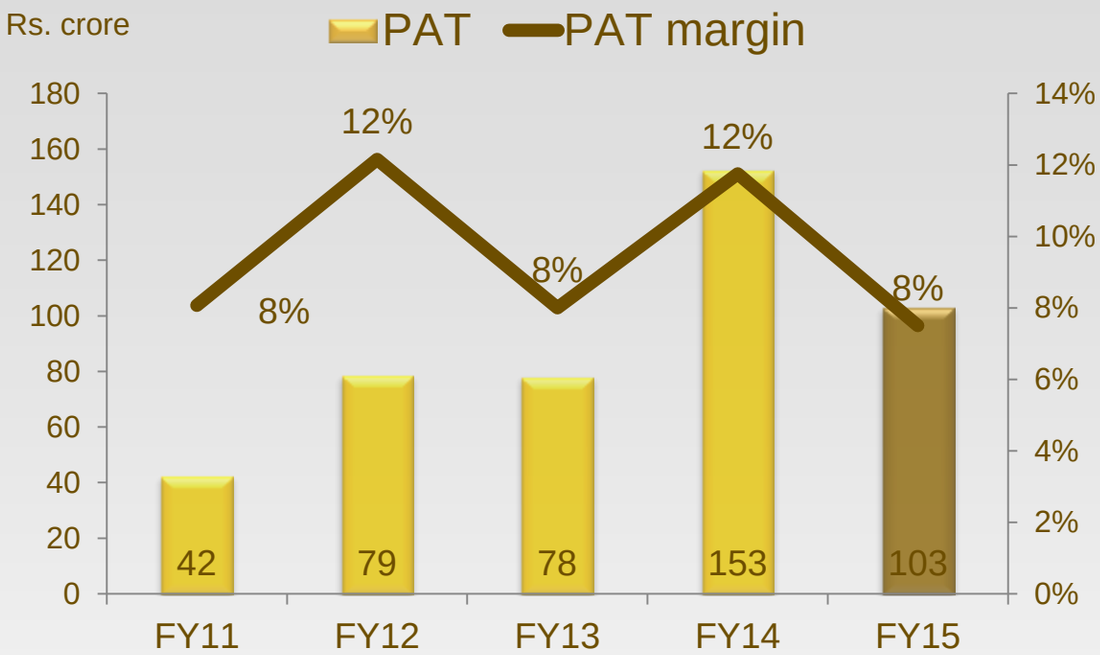


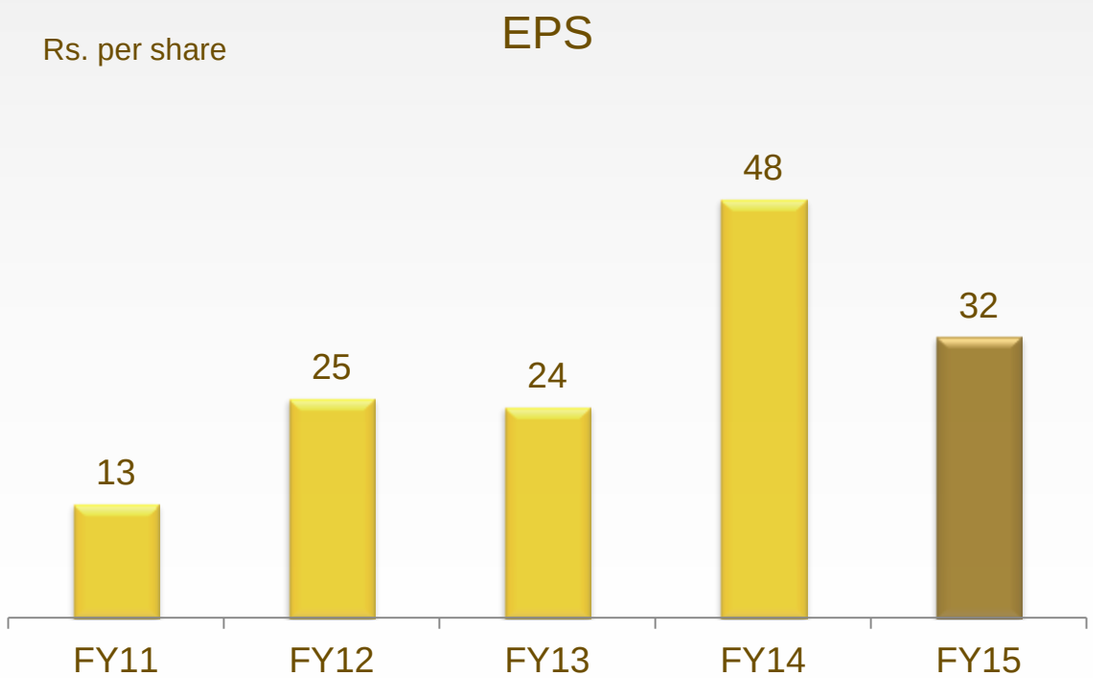
- EBITDA impacted due to additional costs of US call center and TV business software integration. Aggressive marketing tactics by competitors impacted to some extent.

Note:
EBIDTA excludes exchange gain/loss;

Financials Performance Trends

(Profits)

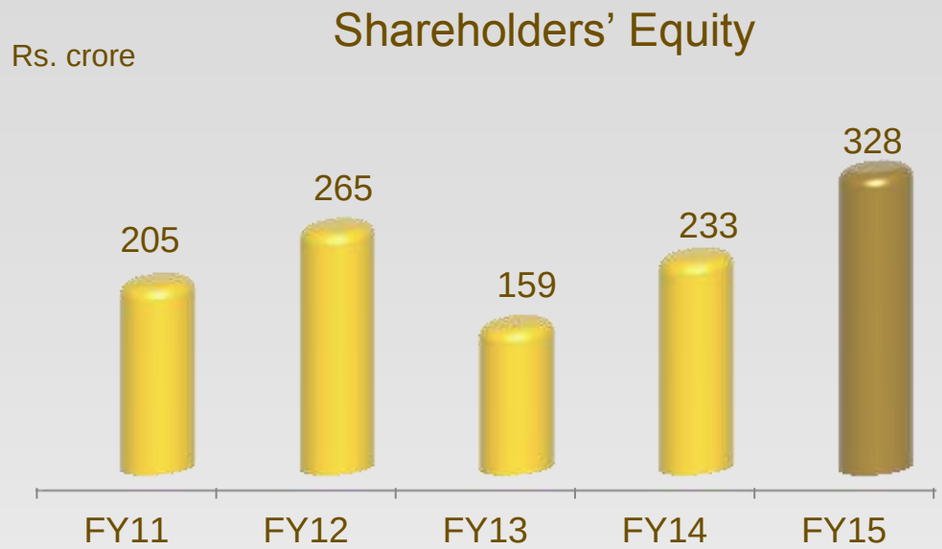




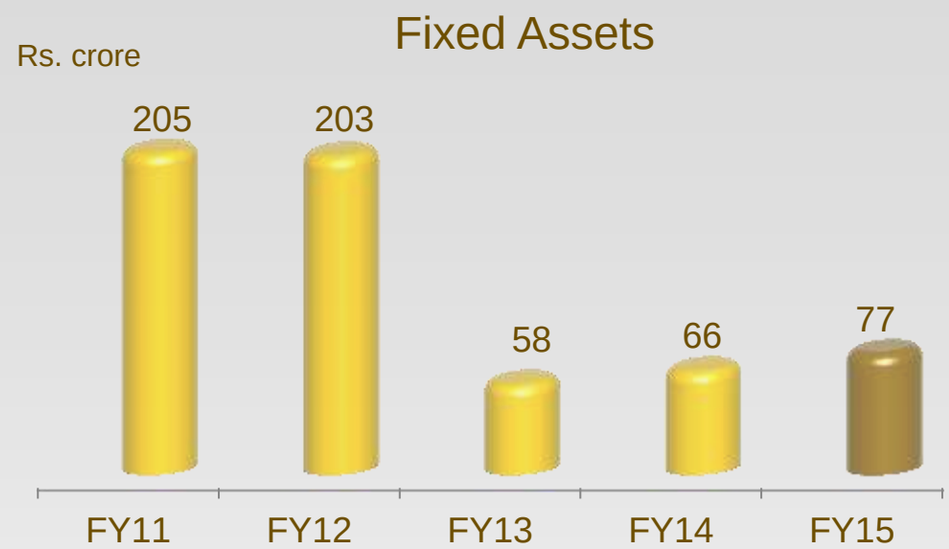
- Margin impact due to taxes in 14-15 and lower EBITDA

Financials Performance Trends

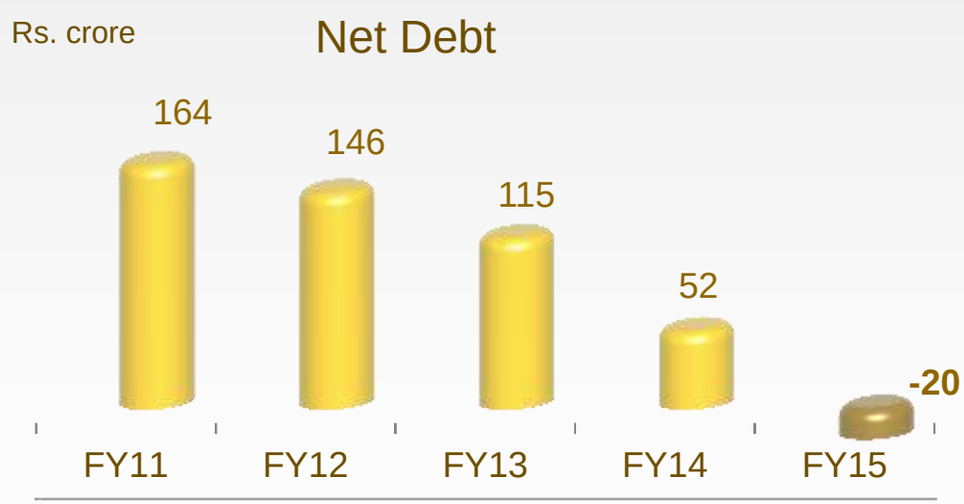
(Balance Sheet)

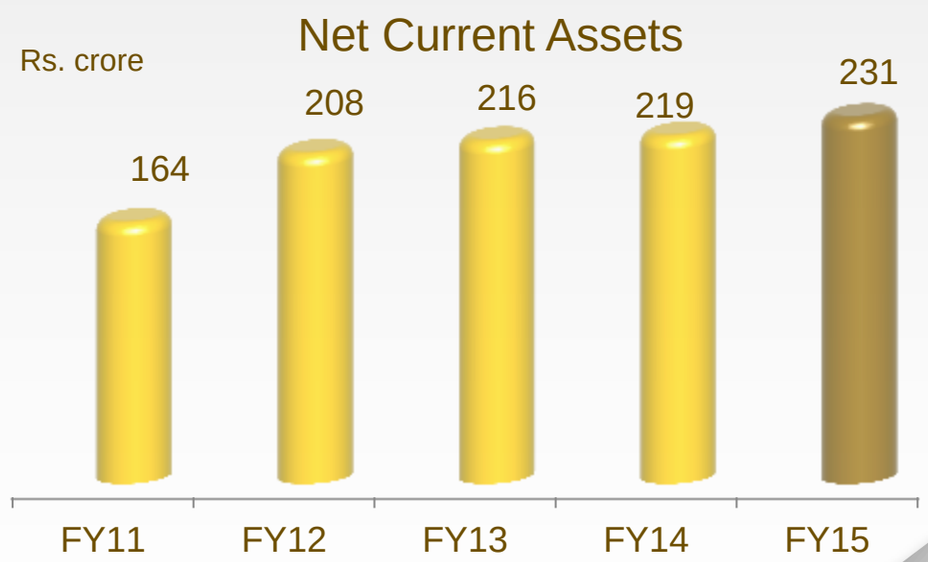


** During FY13, Shareholders' Equity was adjusted lower by Rs. 163.7 crore due to goodwill written off (Rs. 151.1 crore), provision for CDR recompense interest (Rs. 11.2 crore) and write off on liquidation of subsidiary (Rs. 1.5 crore)*



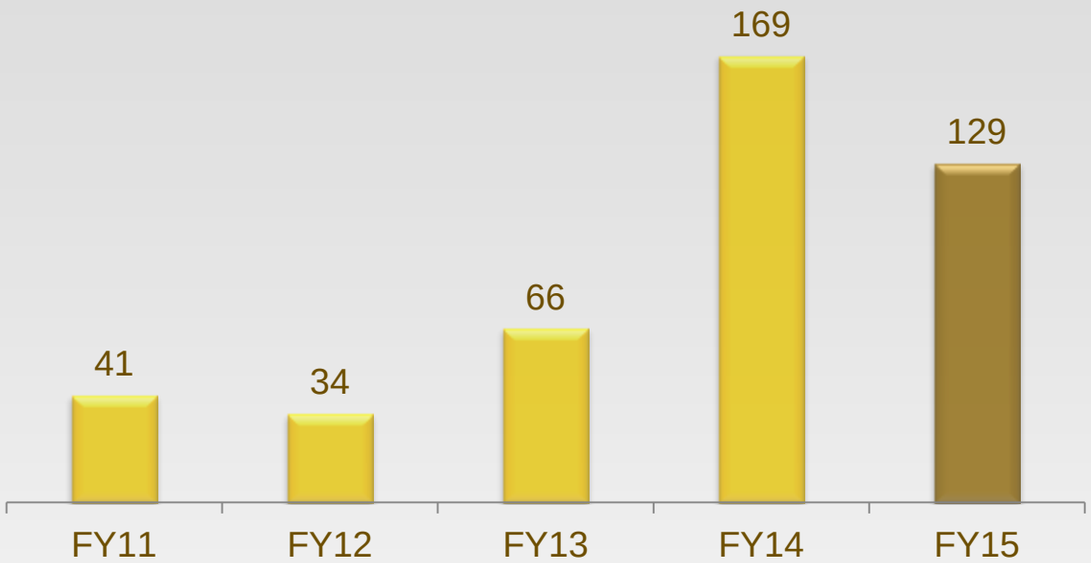
** During FY13 fixed assets were adjusted lower by Rs. 151.1 cr due to goodwill written off*



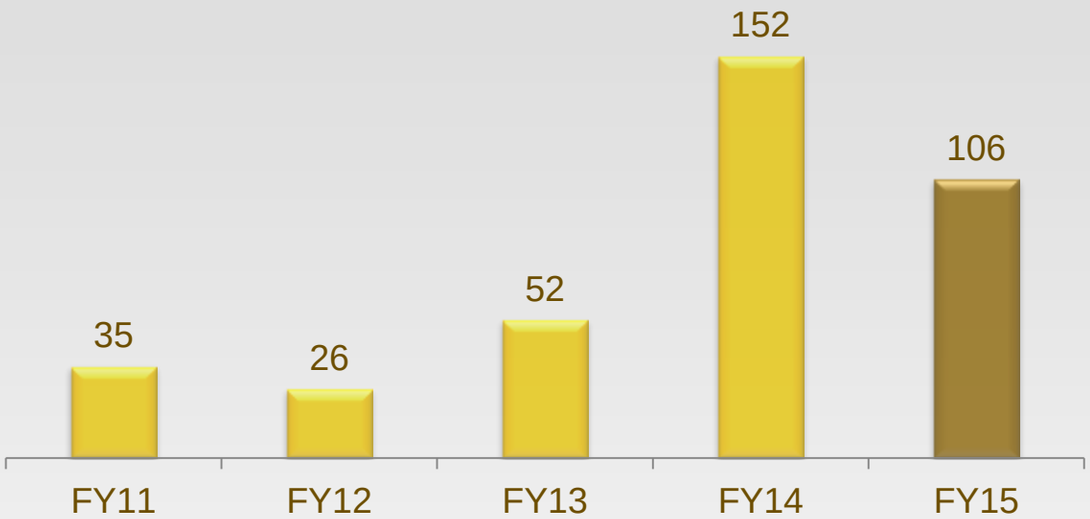


Financials Performance Trends

(Cash Flow)



**Includes Foreign Currency Transaction Reserve*



**Includes Foreign Currency Transaction Reserve*

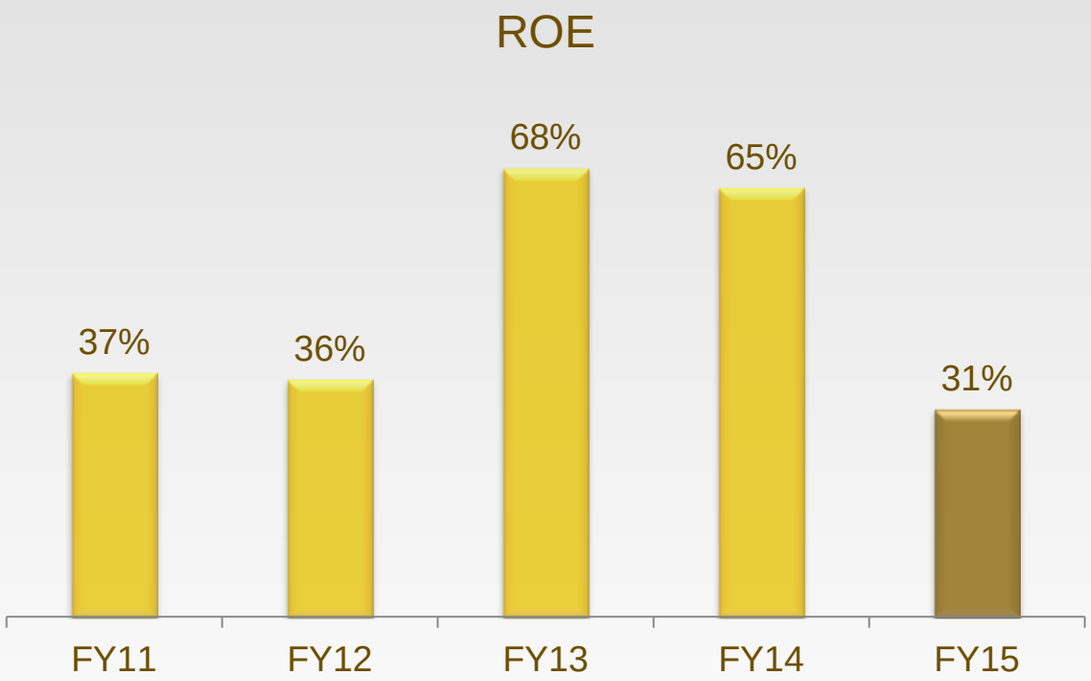
Key usage areas for cash flow generated in FY14:

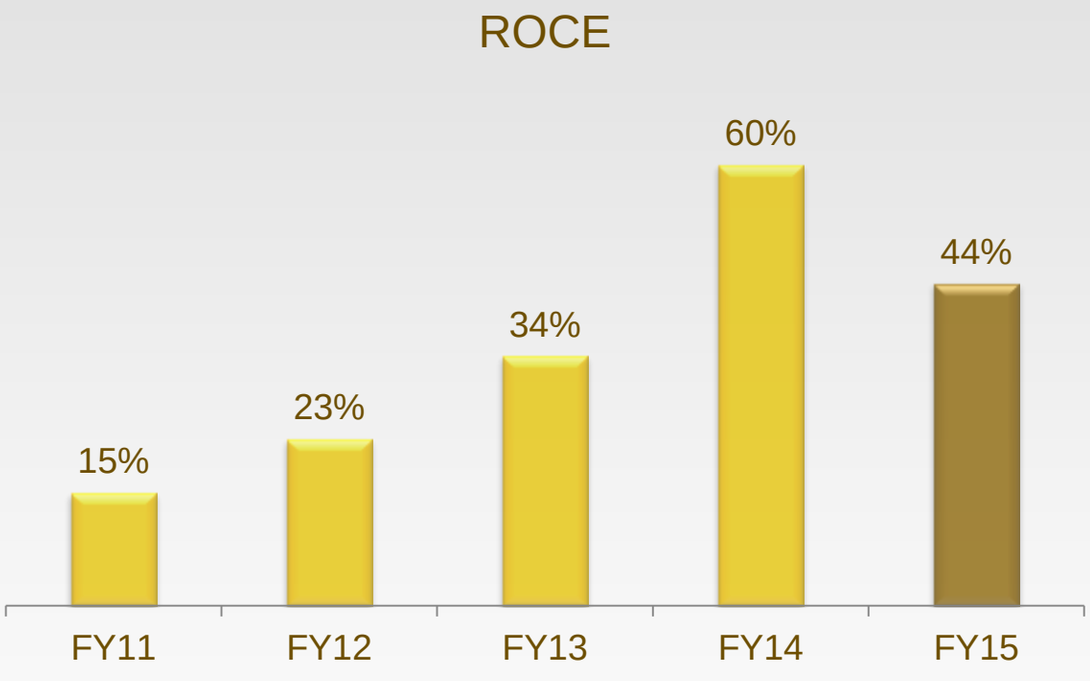
- *Debt repaid: Rs. 47 crore*
  - *Bank loan - Rs. 29 crore*
  - *CDR recompense - Rs. 11 crore*
  - *Related party debt - Rs. 7 crore*
- *Preference shares redemption: Rs. 47 crore*
- *Interest paid: Rs. 14.5 crore*

Key usage areas for cash flow generated in FY15:

- *Debt repaid: Rs. 51.6 crore*
  - *Bank loan – Rs. 45.6 crore*
  - *Related party debt – Rs. 2 crore*
- *Interim Dividend & Tax: 9 crore*
- *Interest paid: Rs. 7 crore*

Financials Performance Trends
(Key Ratios)





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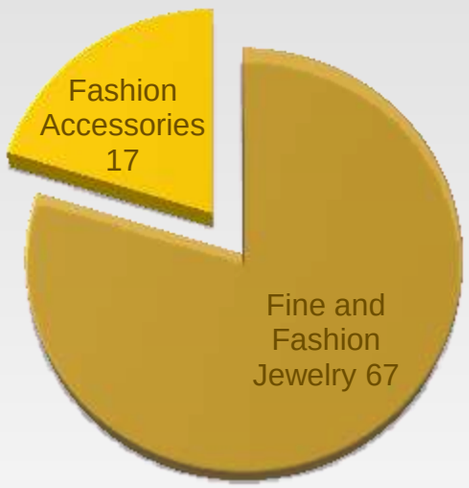
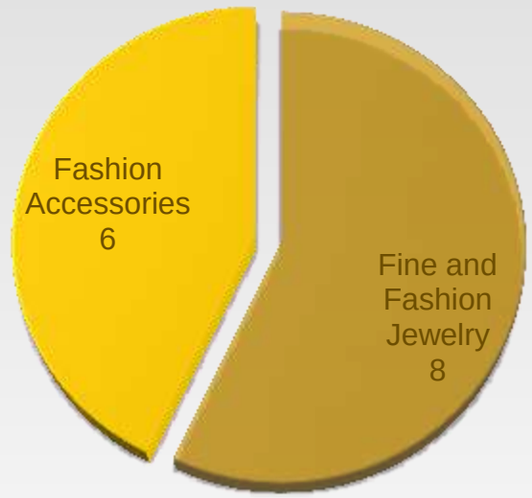
Market Opportunity

US market size (US$ Bn)



UK market size (US$ Bn)

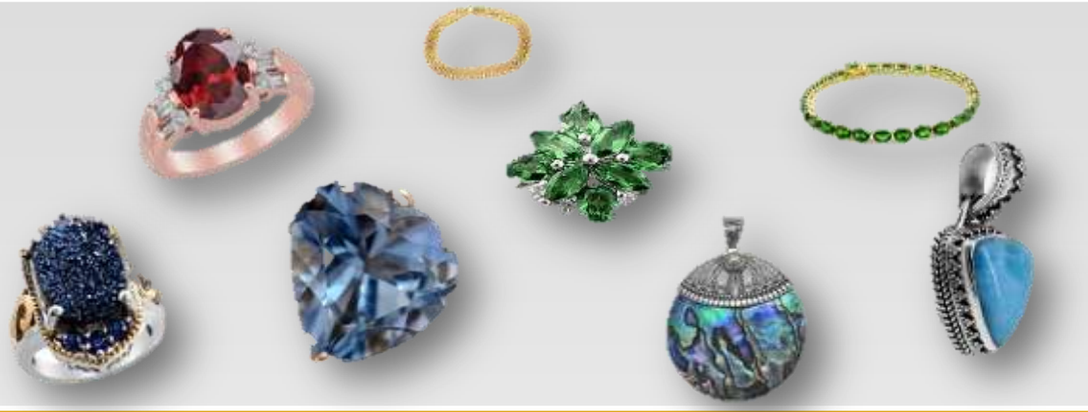


Market share gains through expanded distribution network and introduction of collections/designs mapping market trends

Product Profile

FASHION JEWELLERY

- Bracelets
- Bangles
- Earrings
- Studded jewelry, etc.



FASHION ACCESSORIES

- Watches
- Handbags
- Scarves, etc.

LIFESTYLE PRODUCTS

- Home Décor
- Bed linens
- Pillow Covers
- Towels, etc.

US Market Access on Liquidation Channel

dishtv — Channel #274

Channel #399 & 1399

Verizon FiOS — Channel #159

DIRECTV — Channel #75 & 226

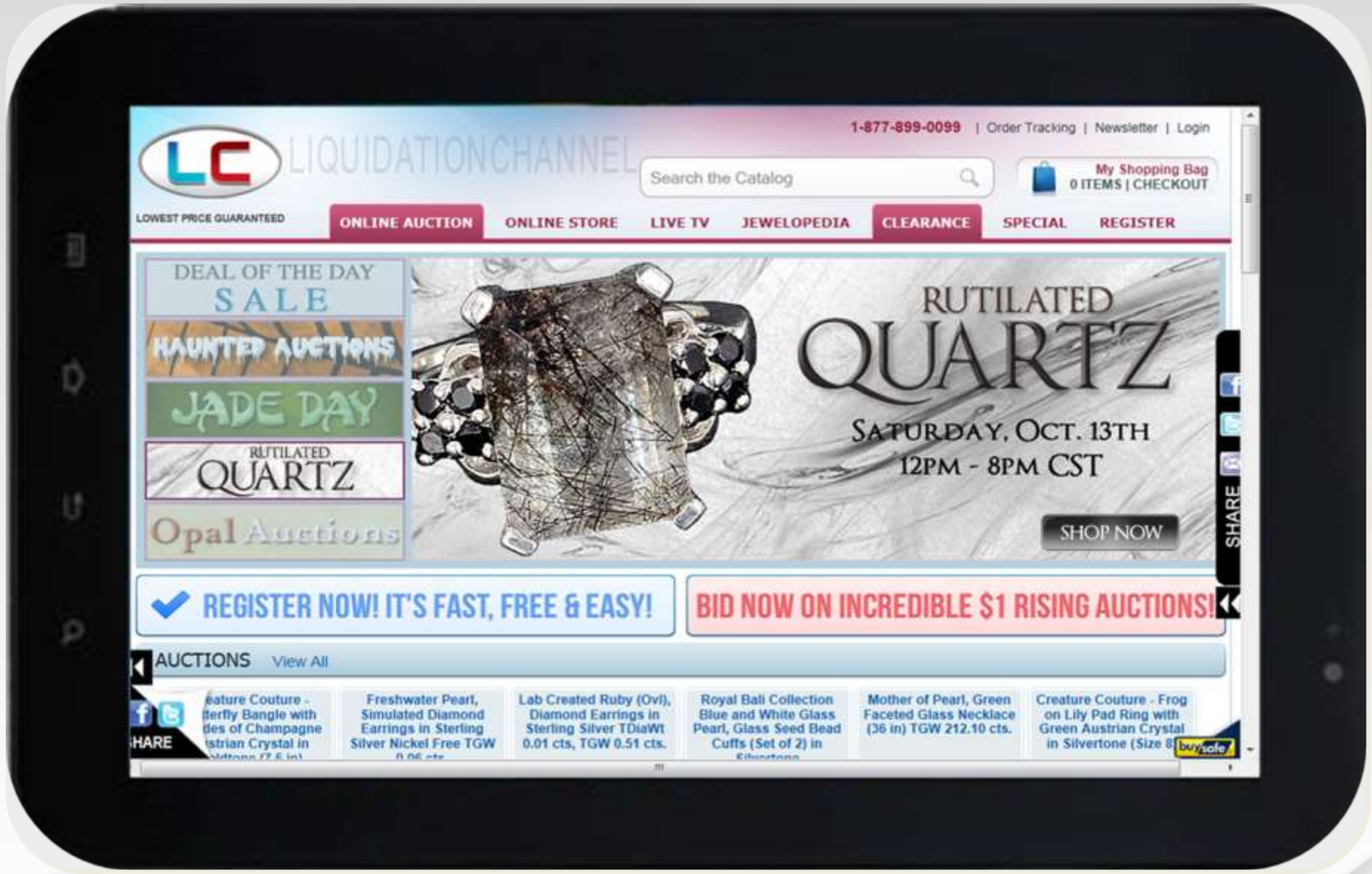
COX *

Roku *

TIME WARNER CABLE *

Charter *

comcast *



https://www.liquidationchannel.com

** Different channel # across various locations*

Access to 75 million (FTE) of the 116 million households in the US

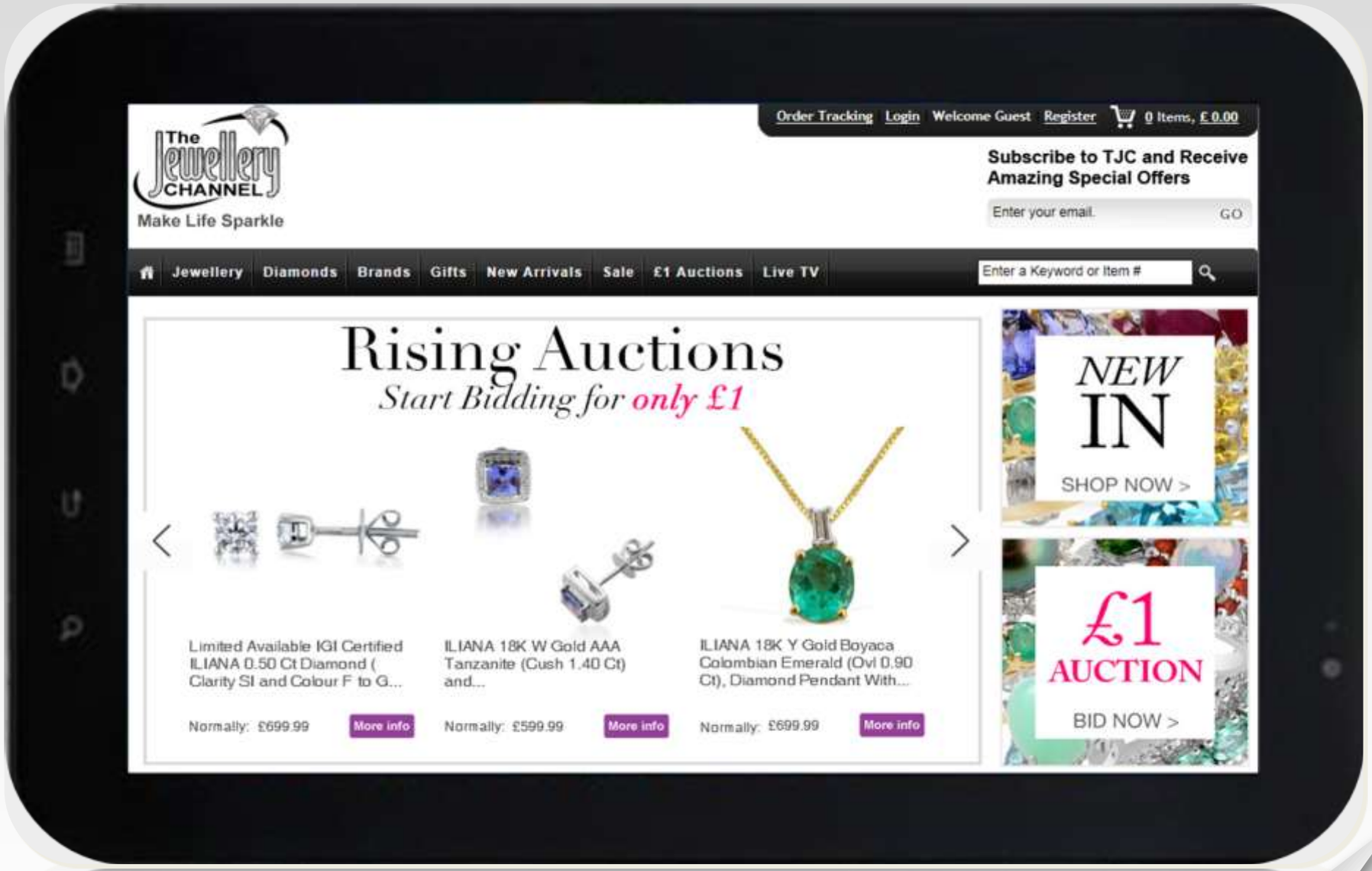
UK Market Access on The Jewellery Channel

Channel #49

Channel #650& #652

Channel #815

Channel #757

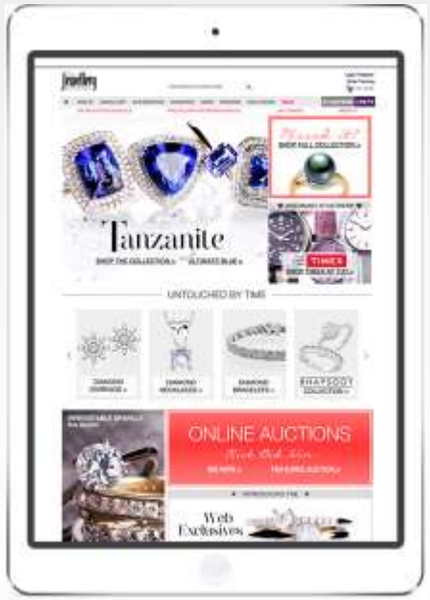


www.thejewellerychannel.tv

Access to 25 out of the total 25 million households

E-Commerce

- Digital presence through liquidationchannel.com and thejewellerychannel.tv
- Retail formats:
  - Catalog
  - Rising Auctions
- Loyal visitor base driving e-commerce traffic:
  - Liquidationchannel.com has Alexa rank of 4,163 in US
  - Thejewellerychannel.tv has Alexa rank of 7,431 in UK
- Technology enhancements:
  - Hybris (a SAP company) platform implemented in US.
  - Mobile app started for TJC UK
  - IPTV apps developed for Google TV, LG TV, Samsung TV,etc
  - CRM and marketing analytics framework



Increased Focus and Contribution from E-commerce Retail

Sourcing Markets

Manufacturing facility in Jaipur, India

Production Capacity (3 units) *–4 million pieces p.a. ISO 9001:2008 manufacturing facilities*
Additional Capacity *–SEZ Green Building with Gold Level facility of 65,000 sq ft*

Over 2,200 people in India across corporate, manufacturing, design, sales & marketing, customer service, logistics etc

Sourcing operations from fashion centric micro markets of Asia

Global supply chain capability of 12 million pieces, continuously expanding

Over 200 people in purchase/ procurement and ancillary functions across Asia

China	Thailand	Indonesia	India
• Guangzhou, Haifeng, Hauadu Shenzhen, Dongguan, Zhuji, Wenzhou, Wuzhou, Yiwu, Hunan	• Bangkok, Chang Mai, Mae Sai, Kanchanaburi, Chanthburi	• Bali, Yogyakarta, Sumatra, Madura Surabaya	• Noida, Jaipur, Nagaland, Kashmir,

Global network for trend spotting and merchandising

Consumption Markets

Access to over 100 million (FTE) households on TV homeshopping in the US, UK and Canada

- Affiliate agreements with major cable, satellite providers
- Improved product presentation by investing into studio facilities

The Jewellery Channel	Liquidation Channel

UK

- The Jewellery Channel and e-commerce
- UK head quarters – Hampton, Middlesex
- Reaching all 25 million households across the U.K.
- Over 95 people in sales & marketing, customer service, logistics, TV production, e-commerce and support functions

USA

- Liquidation Channel and e-commerce
- US head quarters – Austin, Texas
- Access to 75 million (FTE) of the 116 million households in the US, covering all states
- Over 550 people in sales & marketing, customer service, logistics, TV production, e-commerce and support functions

Sourcing Methodology

- Competitive Pricing
- Mapping latest fashions
- Rapid turnaround
- Low investment
- Scale flexibility
- Access to latest manufacturing technologies

Assessing value perception – design / fashion trend / price in target markets

Vendor evaluation process

- Core competency of vendor
- Delivery/ quality/ timeliness
- Proprietary design/ development capability
- Size of product line/ capacity

Focus on best price to customer

- Sourcing price to deliver excellent value
- Multi-vendor quotes to gauge bottom price discovery

Sourcing from appropriate micro-markets in China/Asia

Management Team

Sunil Agrawal

Chairman and Managing Director

- Established Vaibhav in 1980 as a first generation entrepreneur and has led the company's transition into a leading brand for fashion jewelry and lifestyle accessories
- Travels extensively across the world, overseeing operations, sourcing raw material globally and representing the company at major trade shows and jewelry fairs in the US, Europe and Asia

Hemant Sultania

Group Chief Financial Officer

- 17 years of rich experience in strategic financial planning, budgeting, project evaluation, commercial and legal affairs, taxation, fund management, finalization of accounts, revenue assurance, auditing, MIS development and mergers & acquisitions
- Previously CFO with Dr. Lal Path labs, Vice President with Bata India Limited and Senior Tax Manager at Ernst & Young India

Jeff Allar

Senior Vice President, Group HR

- 30 years of work experience working for major international companies including IBM, Unilever and the Stonyfield Farm unit of Groupe Danone
- Tremendous Organization development and senior level HR experience having worked with brands like ACS, Stonyfield and Good Humor- Breyers Ice Cream

Charlie Curnow

Group Chief Information Officer

- Extensive experience across EMEA, Asia-Pac and South America in IT leadership roles at both public and private sector companies including A.H. Belo Corporation, Bear Stearns, Blockbuster, Coca-Cola, Computer Sciences, Dell, and General Electric
- Focused on leading the expansion of VGL's global IT capabilities

Management Team

Gerald Tempton

President, The Liquidation Channel USA

- Leading VGL's US retail business for the last four years
- Distinguished career since 1979 in retail/consumer products, commercial real estate, financial services across merchandising, sales, marketing and operations at Zale's Jewelers, JB Robinson Jewelers, Gordon Jewelry Corp, Gap Inc, the Walt Disney Company, United Colors of Benetton and KB Toys

Colin Wagstaffe

Managing Director, The Jewellery Channel UK

- Previously led retail marketing and ecommerce initiatives at UK and Ireland operations of Signet Jewellers, the largest specialty retail jeweler by sales in the US and UK
- Over two decades in leadership marketing roles in major UK businesses – J Sainsbury plc, one of the UK's leading supermarket companies and BAA, the UK's largest, airport operator

Praveen Tiwari

Vice President , STS China

Over 15 years at VGL, currently heads the group's China and Hong Kong sourcing operations

Part of core team that successfully implemented organizational turnaround strategies

Pushpendra Singh

Vice President , Human Resources Asia

- 19 years of experience in HR with a range of Indian companies such as NTPC, Jindal Steel and Power, Kalpataru and Reliance Communications, successfully implementing many talent acquisition, management and retention initiatives

Contact Information

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Thank You