Vaibhav Global Limited

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

Financial Results Presentation

Q3 & 9MFY15

January 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

- 98 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 Q3 / 9M FY15

Home TV Network Reaches Over 100 Million Households, FTE Increases 9%

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

Retail Volumes Improve 5% YoY to 7.2 Million Units

- 5% higher volumes on Home TV shopping
- 4% higher volumes on Web shopping
- Volume growth driven by Fashion Jewelry
- Deeper customer engagement drives repeat purchases

Financial Performance

- Total Income higher by 8% at Rs. 1017 crore YoY
- EBITDA at Rs. 45 crore in Q3 FY15
- Profit after tax at Rs. 39 crore in Q3 FY15
- Earnings per share of Rs. 12 in Q3 FY15

Strong Returns on Investments

- Return on Equity at 40%
- Return on Capital Employed at 43%

Operating Highlights

- USA Call Center Outsourced – training/integration process expected to continue till March 2015
- Next Generation TV Auction/Scheduling/Customer Service software launched and integrated at Liquidation Channel

Debt Repayment from Operating Cash Flows

- Free Cash Flow at Rs. 35 crore in Q3FY15 and Rs. 64 crore YTD
- Term loans fully repaid in Q3, Net Debt at Rs. 25 crore in Q3FY15 as compared to Rs. 119 crore in Q3FY14

Chairman's Message

Commenting on Q3 & 9M FY15 performance, Mr. Sunil Agrawal, Chairman and Managing Director, Vaibhav Global said:

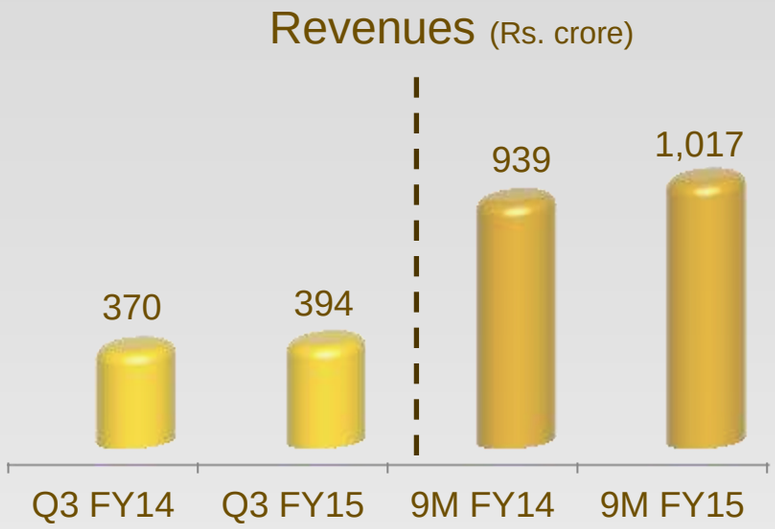
"This has been a year of transition during which we have made vital investments in enhancing our physical, technology and human resource infrastructure to support our retail business growth prospects. The shift to an outsourced call center operations has helped us focus on our core business and improve efficiencies. We have successfully implemented an upgraded SAP-based HRIS platform as well as upgraded TV business management platform at our US operations. We are currently implementing an advanced SAP-based Web platform, which will enhance the customer experience and improve accountability. These upgrades will help us deliver long term, secular growth.

Our strong cash flows have enabled us to prudently reduced net debt by Rs. 27 crore in the first nine months and we are well on track to emerge as a zero net debt company by the end of FY15. We continue to report healthy return ratios on capital invested, which is a key determinant for all our business decisions.

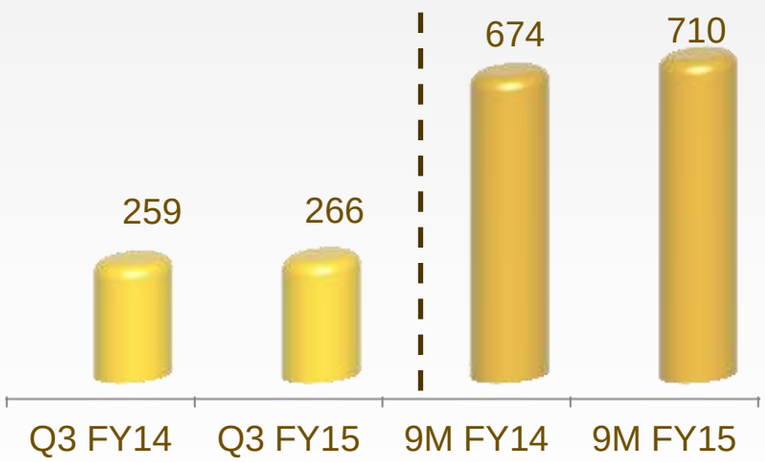
Going forward, the transitions we have made in upscaling our capabilities are expected to create significant business value and establish a global corporation with strong business drivers delivering outstanding value to our customers."

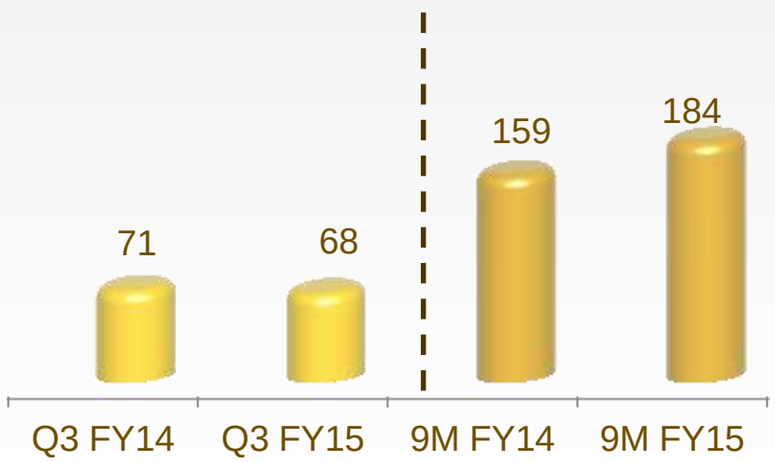
Financials – Q3 & 9M FY15 Performance

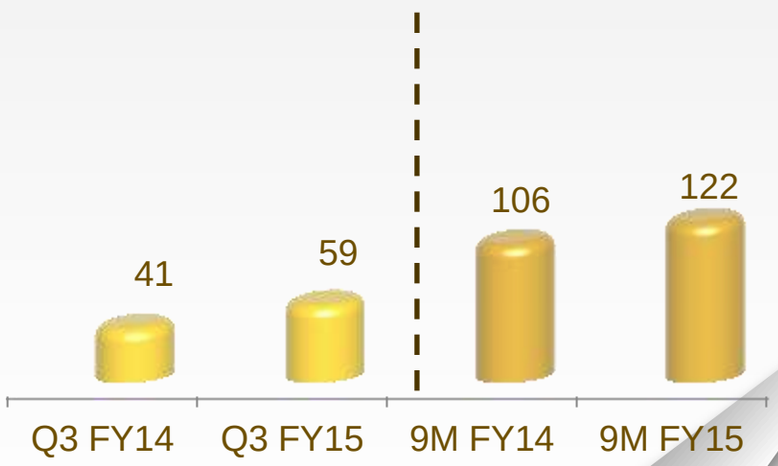
(Revenues)



Jewelry & Lifestyle Products

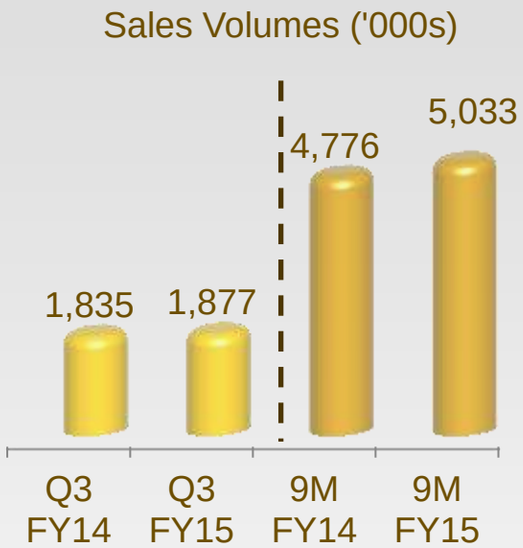


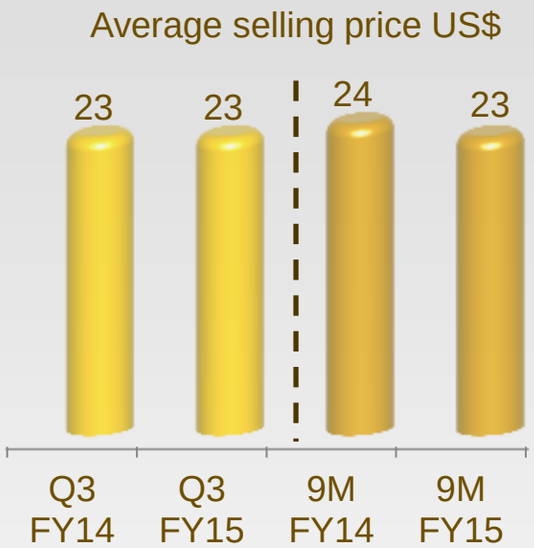




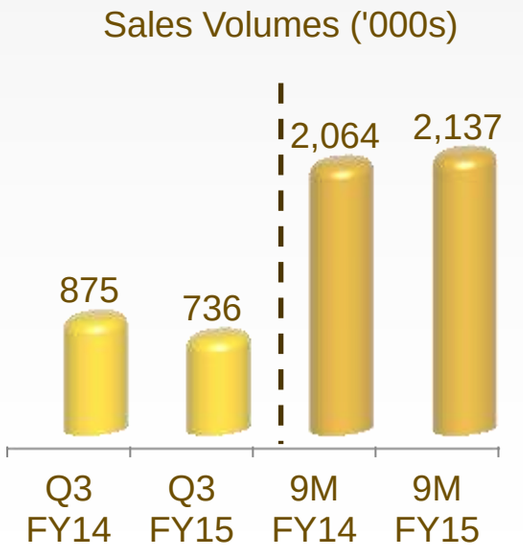
Retail Performance Trends

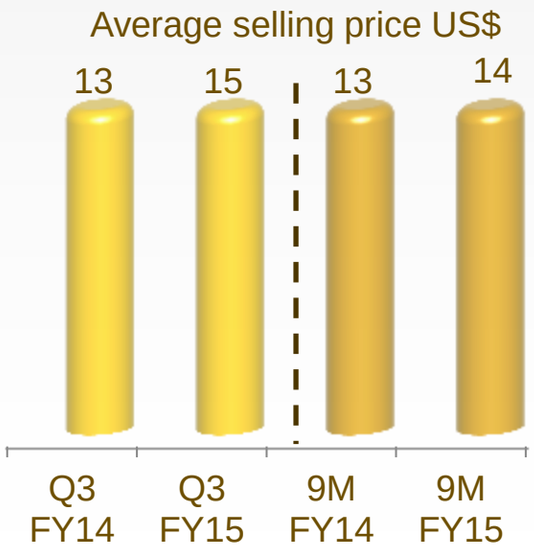
TV Sales





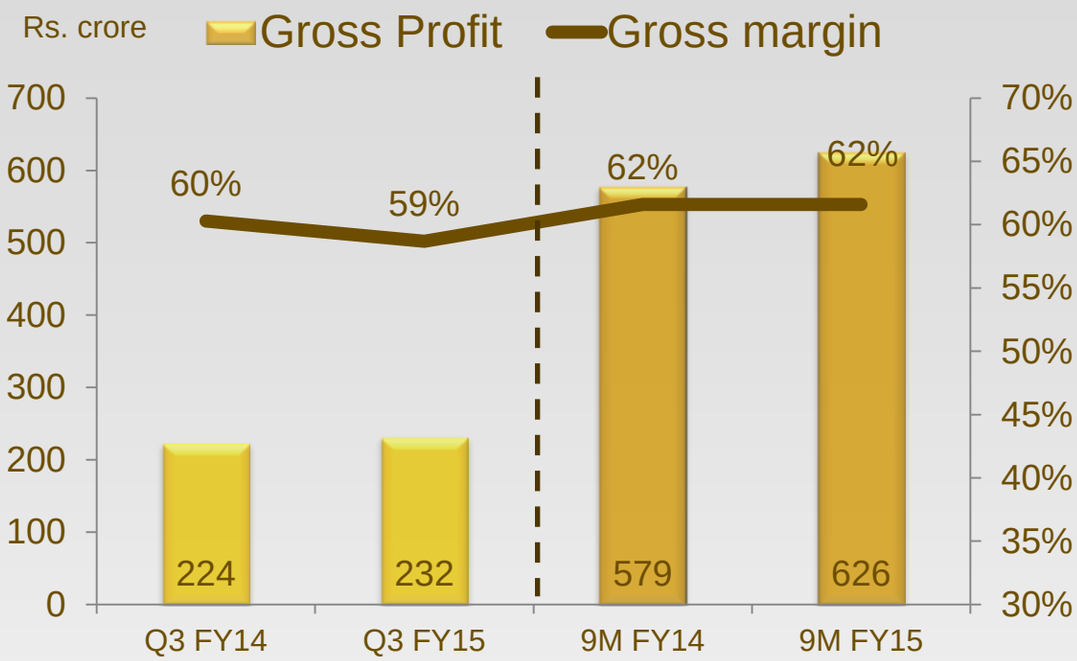
Web Sales





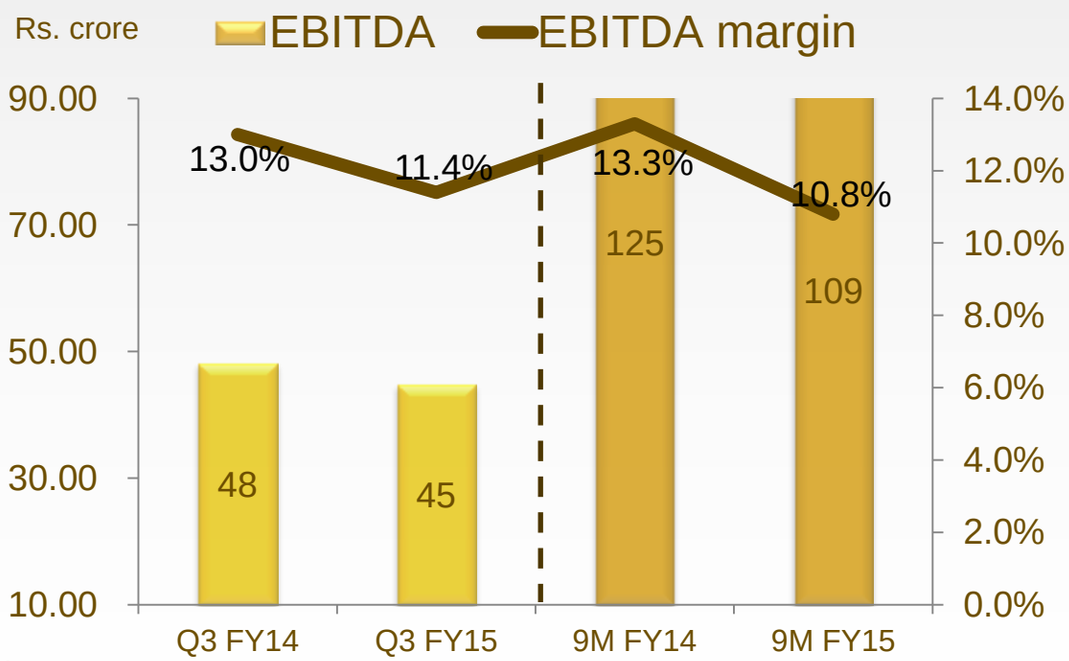
- Web sales now contribute 28% of sales volume
- Volume growth driven by expansion of fashion jewelry and lifestyle accessories lines within the existing household coverage and reduction in average selling price.

Financials – Q3 & 9M FY15 Performance
(Margins)



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

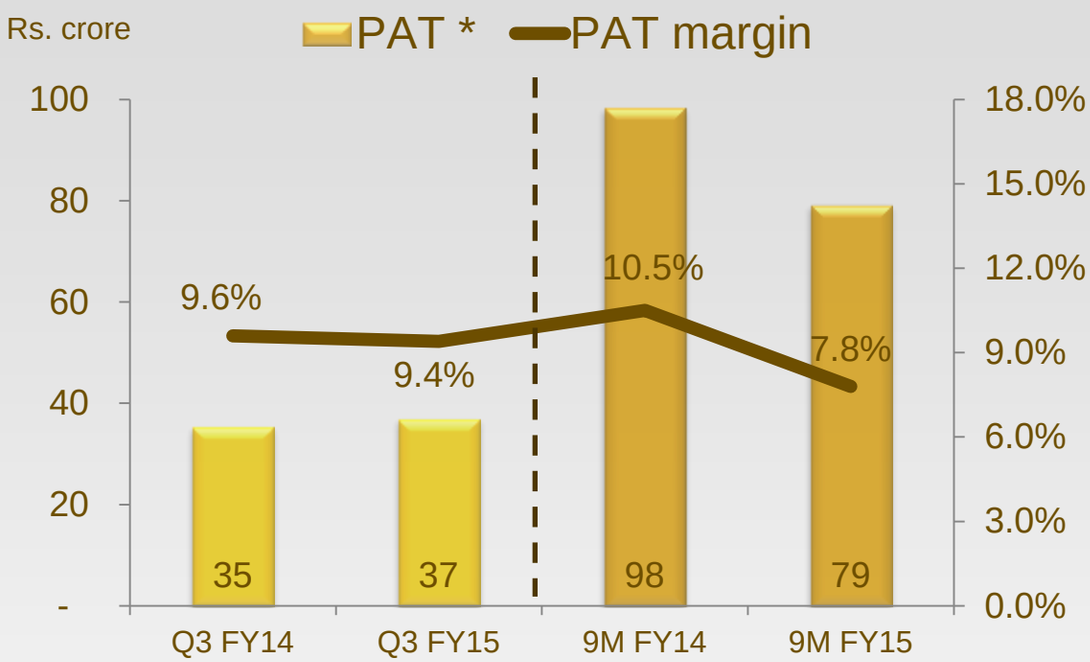
- Gross margins largely stable



Note:
EBIDTA excludes exchange gain/loss;
EBIDTA margin including exchange gain/loss stood at 11.4% in 9M FY15 v/s 15.1% in 9M FY14
EBIDTA margin including exchange gain/loss stood at 11.9% in Q3 FY15 v/s 12% in Q3 FY14

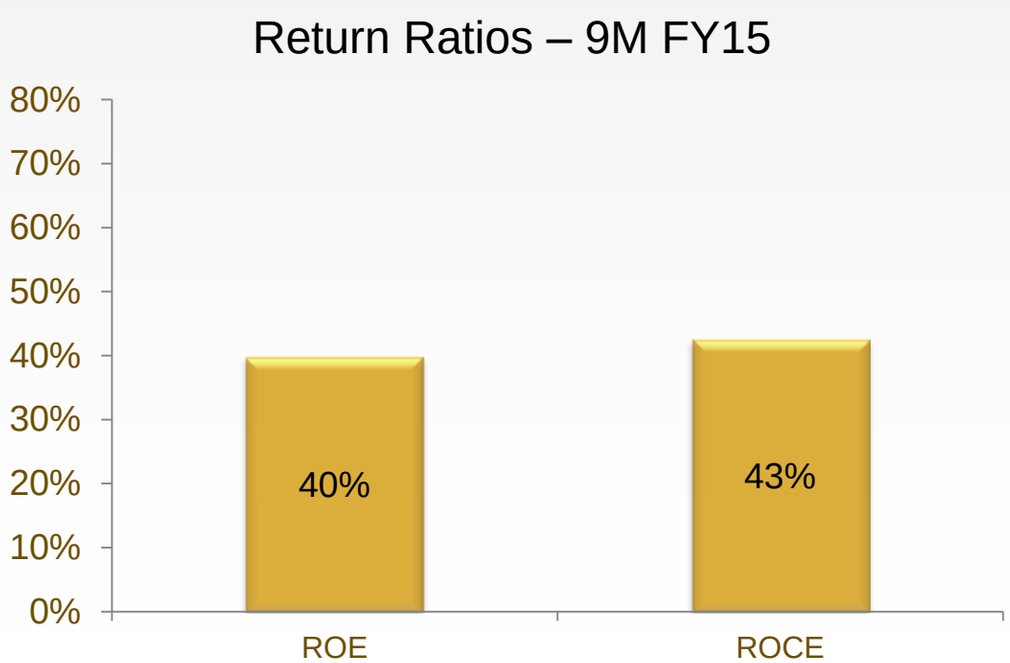
- EBITDA was lower due to higher SG&A expenses (mainly Content & Broadcasting) geared for higher sales, lower shipping revenue and higher B2B sales

Financials – Q3 & 9M FY15 Performance
(Profits)



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

- Quarterly PAT better due to lower interest costs and lower tax provision. YTD PAT lower due to lower EBITDA and higher taxes.



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

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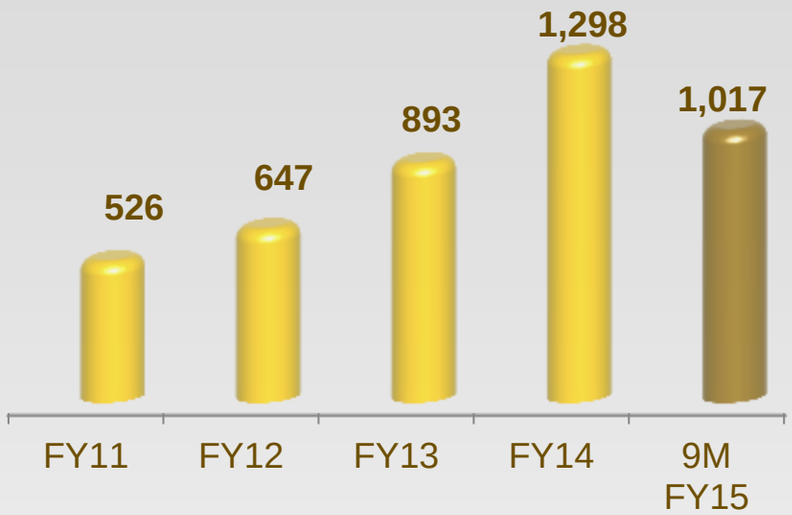
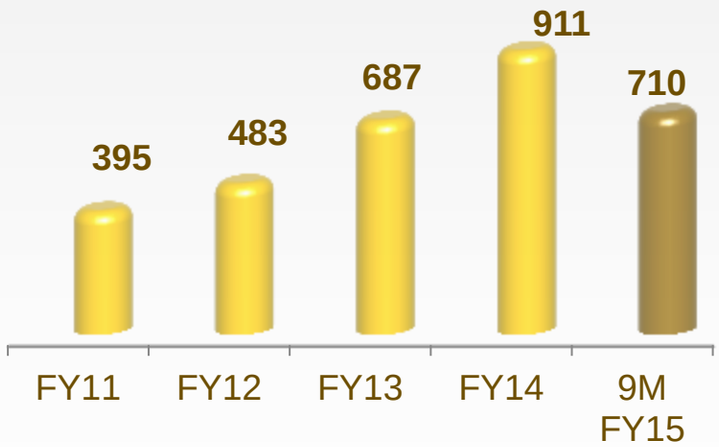
Financials Performance Trends

(Revenues)

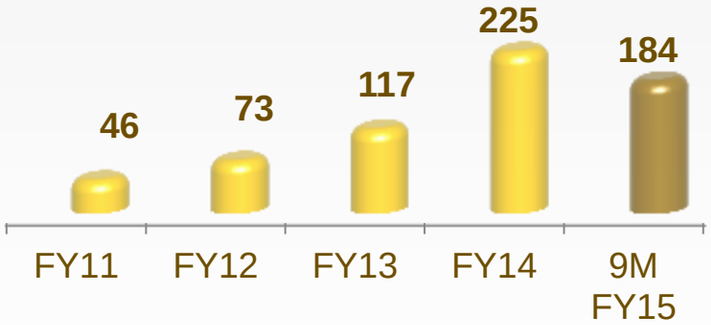


Jewelry & Lifestyle Products

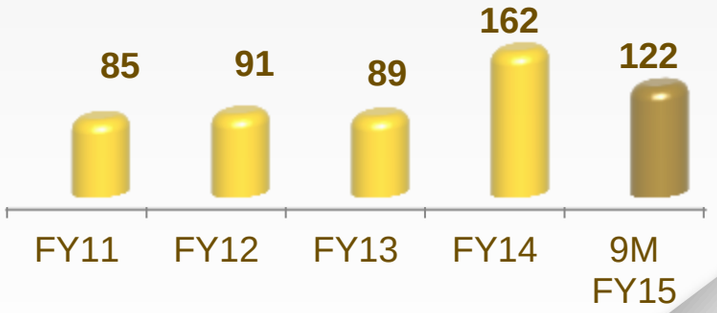
TV Sales



Web Sales



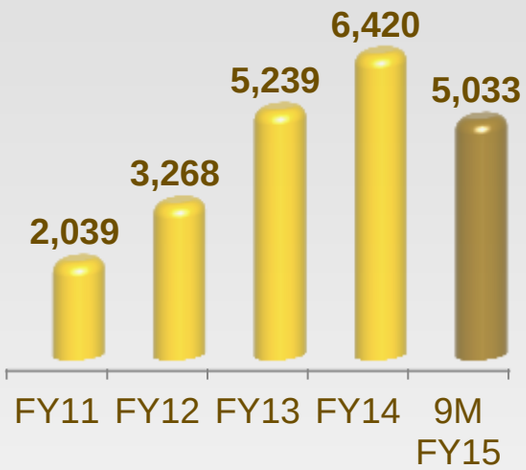
B2B Sales



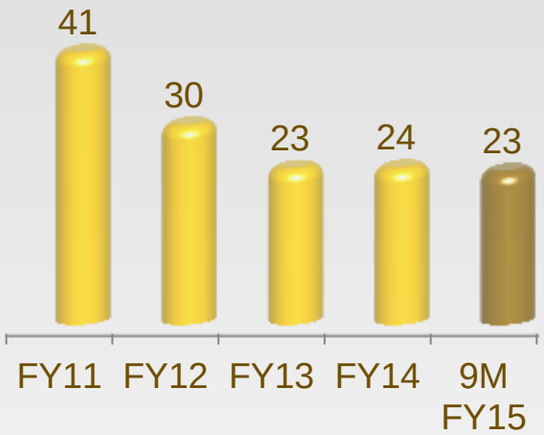
Retail Performance Trends

TV Sales

Sales Volumes ('000s)

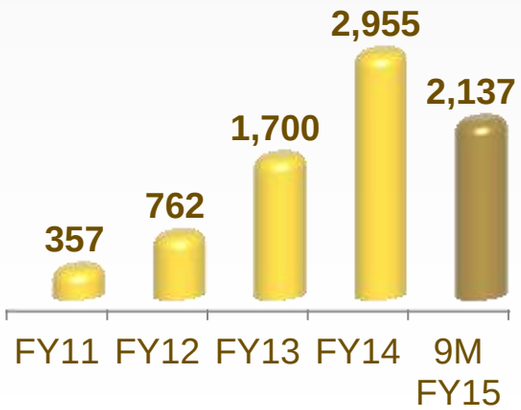


Average selling price US$

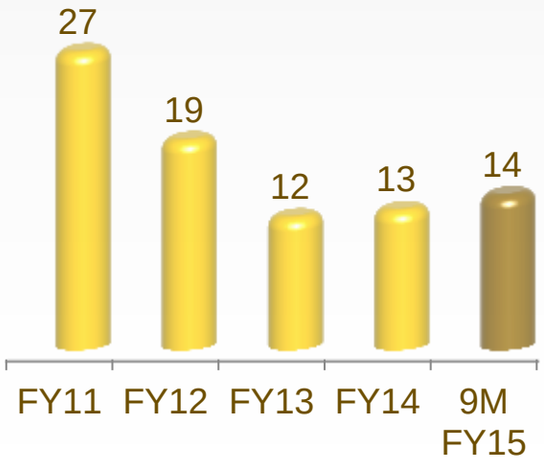


Web Sales

Sales Volumes ('000s)

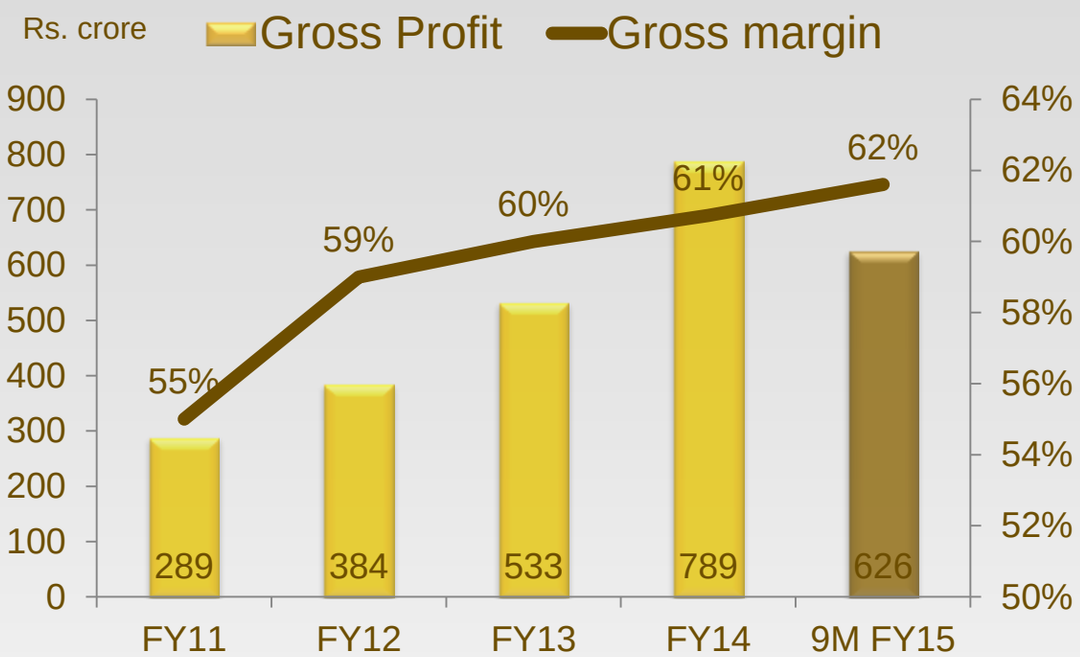


Average selling price US$

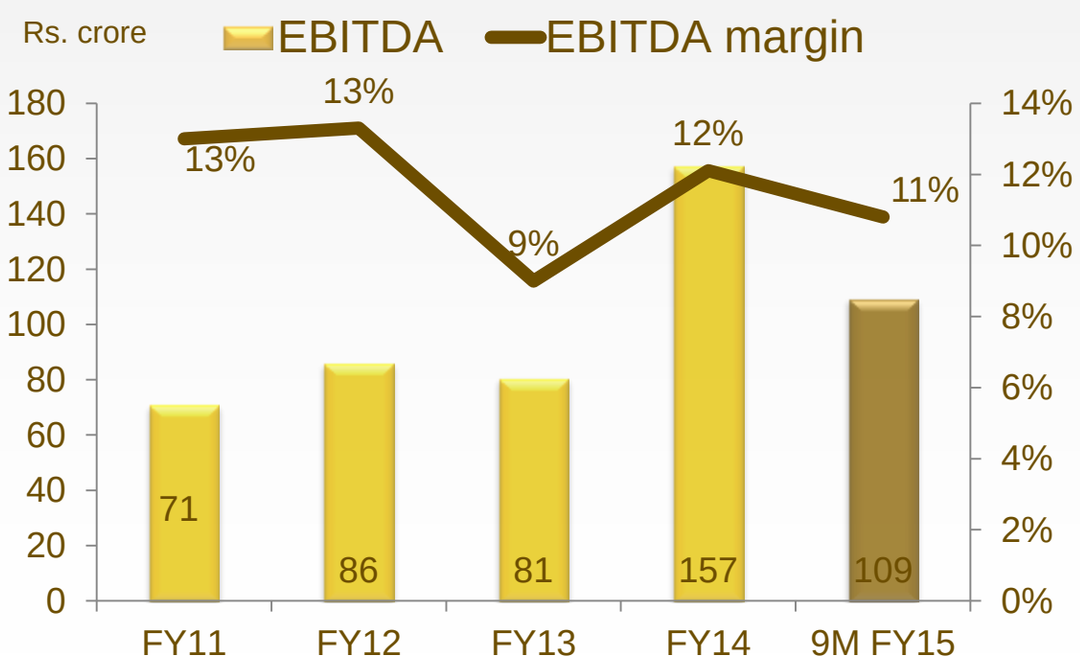


- Good volume growth driven by strong customer engagement
- ASP has been stable even with portfolio transition from fine jewelry to fashion jewelry and accessories
- Internet sales volumes complement TV shopping and create a balanced portfolio

Financials Performance Trends
(Margins)



- Gross margins largely stable.

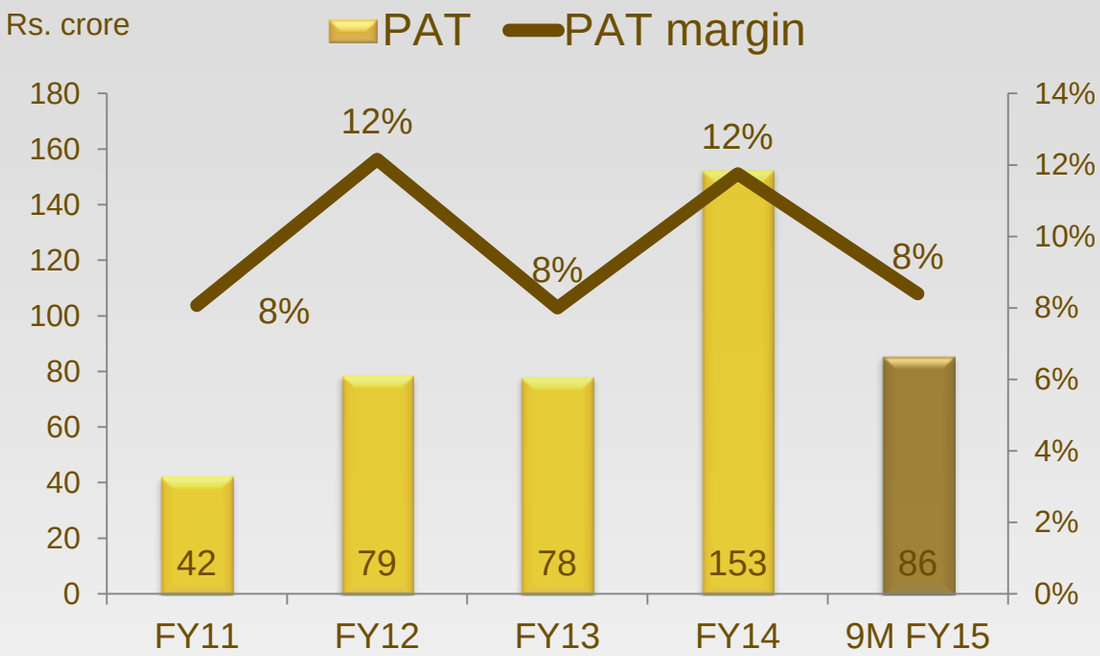


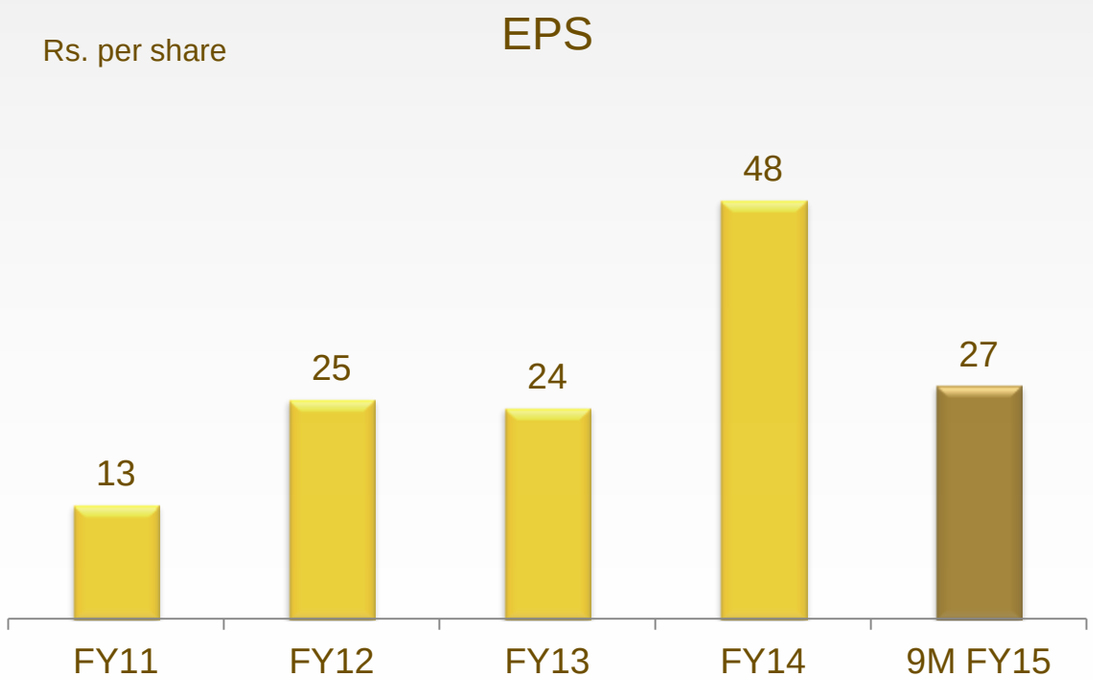
- EBITDA impacted due to additional costs of US call center and TV business software integration. Aggressive marketing tactics by competitors impacted to some extent.

Note:
EBIDTA excludes exchange gain/loss;

Financials Performance Trends

(Profits)

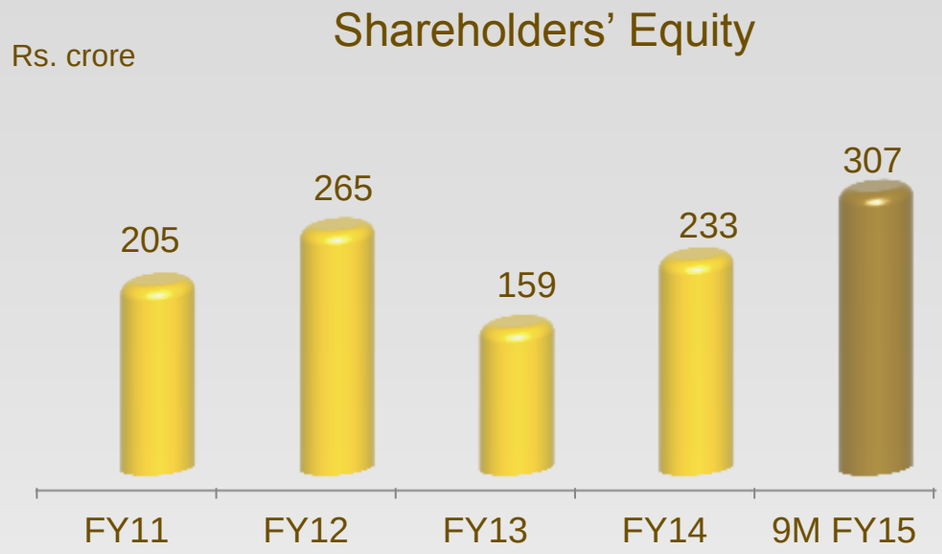




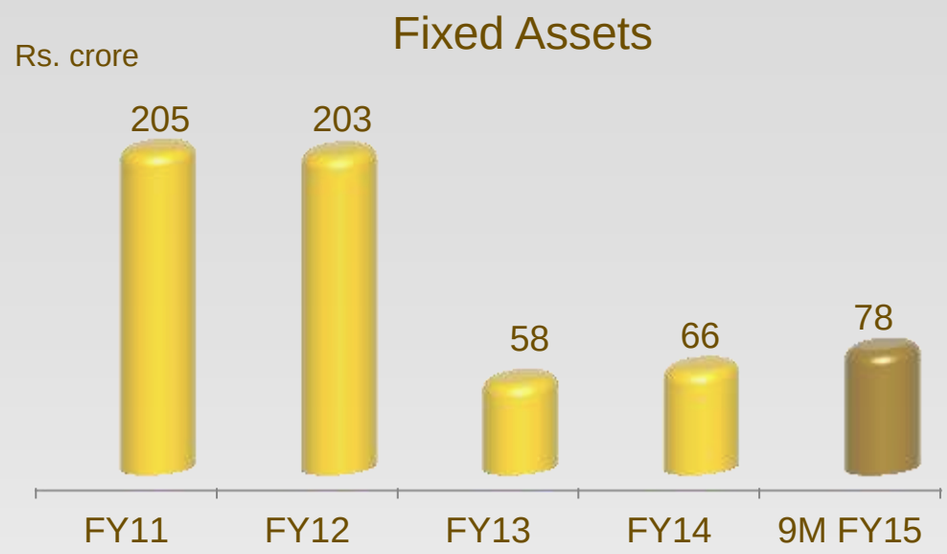
- Margin impact due to taxes in 14-15 and lower EBITDA

Financials Performance Trends

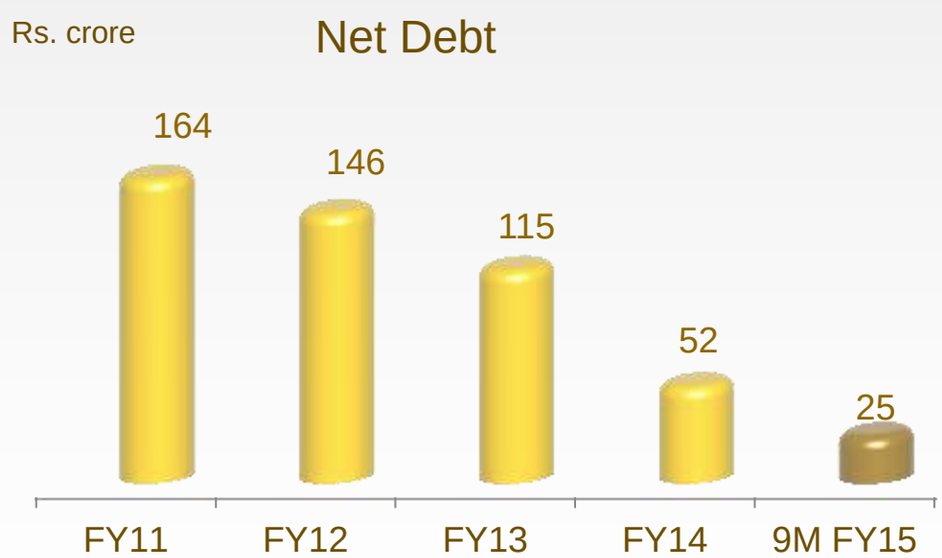
(Balance Sheet)

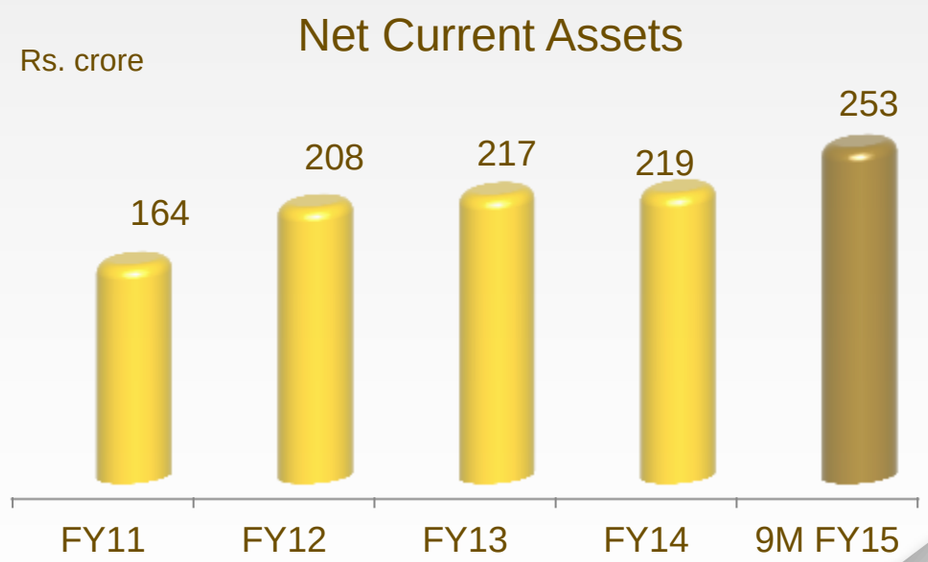


** During FY13, Shareholders' Equity was adjusted lower by Rs. 163.7 crore due to goodwill written off (Rs. 151.1 crore), provision for CDR recompense interest (Rs. 11.2 crore) and write off on liquidation of subsidiary (Rs. 1.5 crore)*



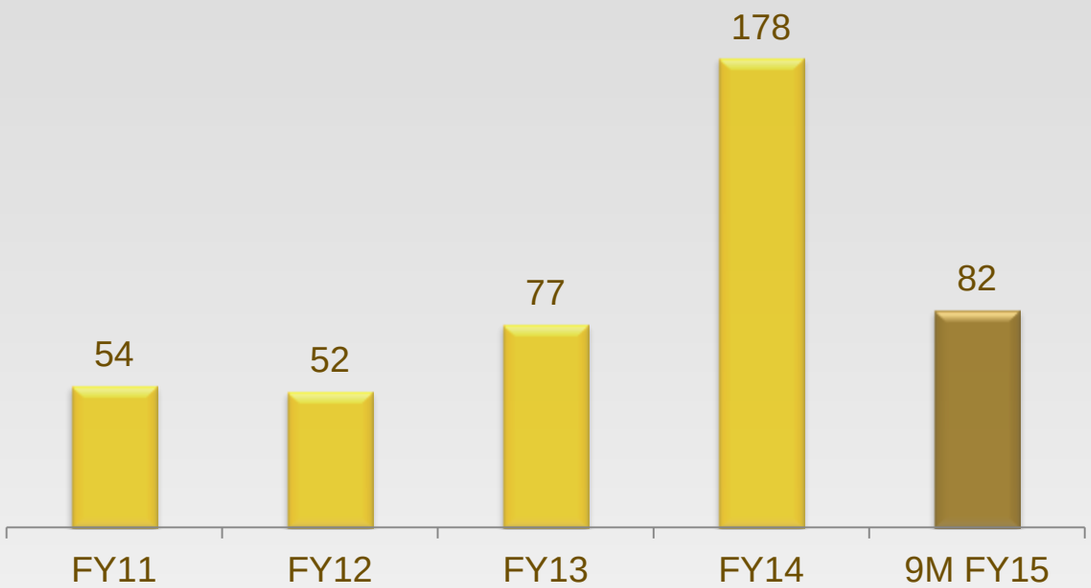
** During FY13 fixed assets were adjusted lower by Rs. 151.1 cr due to goodwill written off*



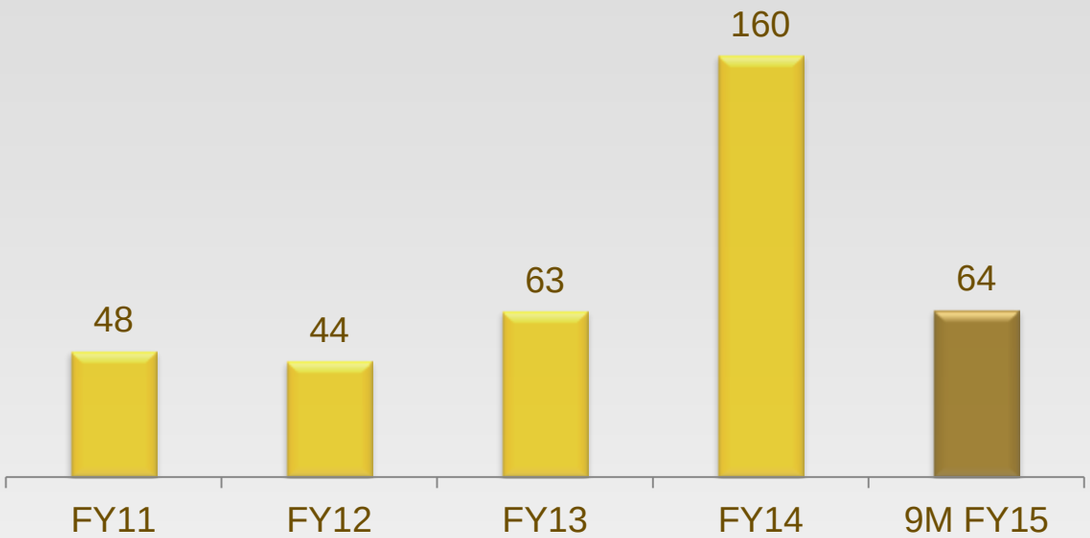


Financials Performance Trends

(Cash Flow)



**Includes Foreign Currency Transaction Reserve*



**Includes Foreign Currency Transaction Reserve*

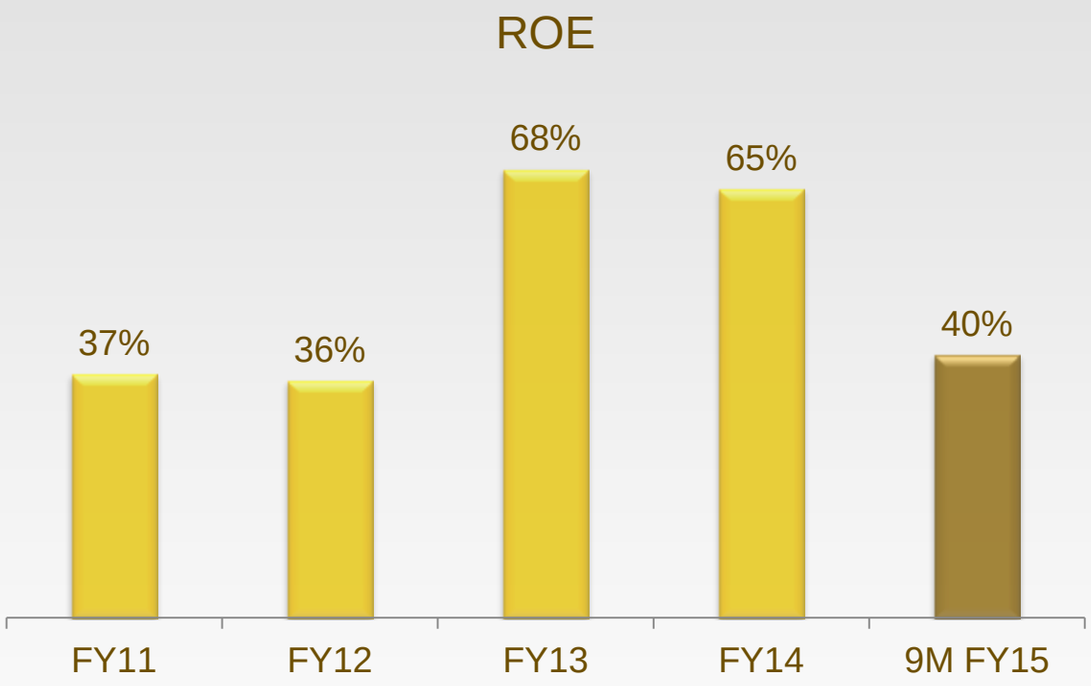
Key usage areas for cash flow generated in FY14:

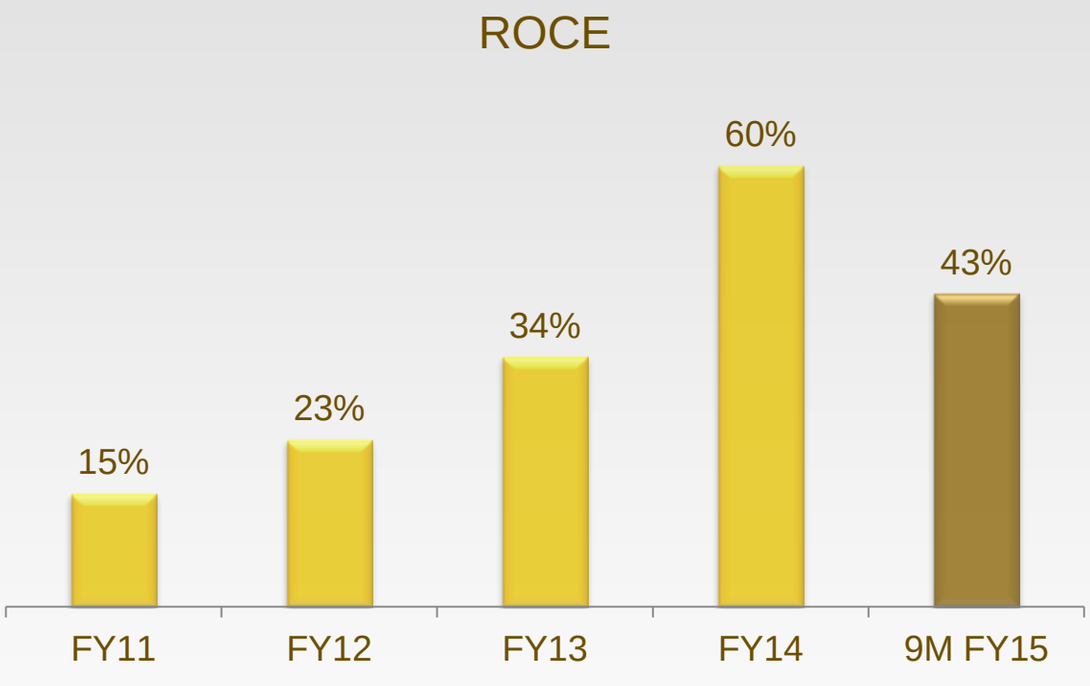
- *Debt repaid: Rs. 47 crore*
  - *Bank loan - Rs. 29 crore*
  - *CDR recompense - Rs. 11 crore*
  - *Related party debt - Rs. 7 crore*
- *Preference shares redemption: Rs. 47 crore*
- *Interest paid: Rs. 14 crore*

Key usage areas for cash flow generated in 9MFY15:

- *Debt repaid: Rs. 42 crore*
  - *Bank loan – Rs. 42 crore*
  - *Related party debt – Rs. 2 crore*
- *Interest paid: Rs. 6 crore*
- *Interim Dividend & Tax: 9.3 crore*

Financials Performance Trends
(Key Ratios)





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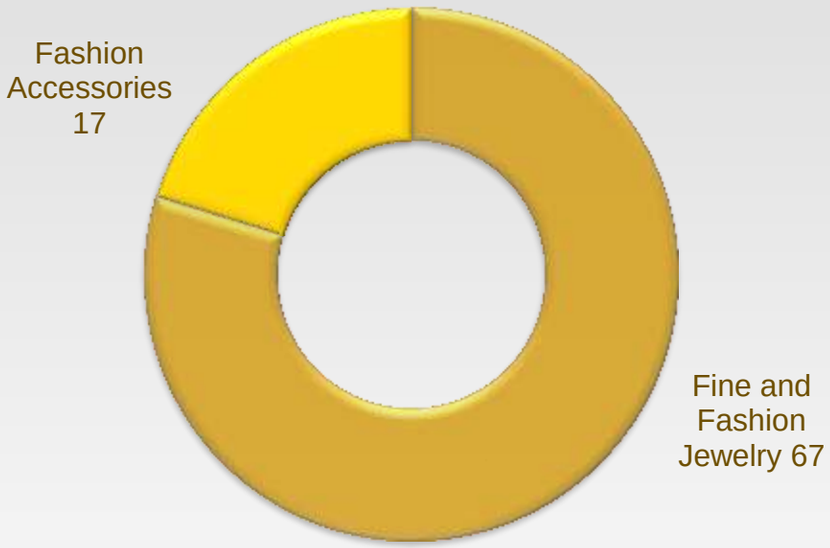
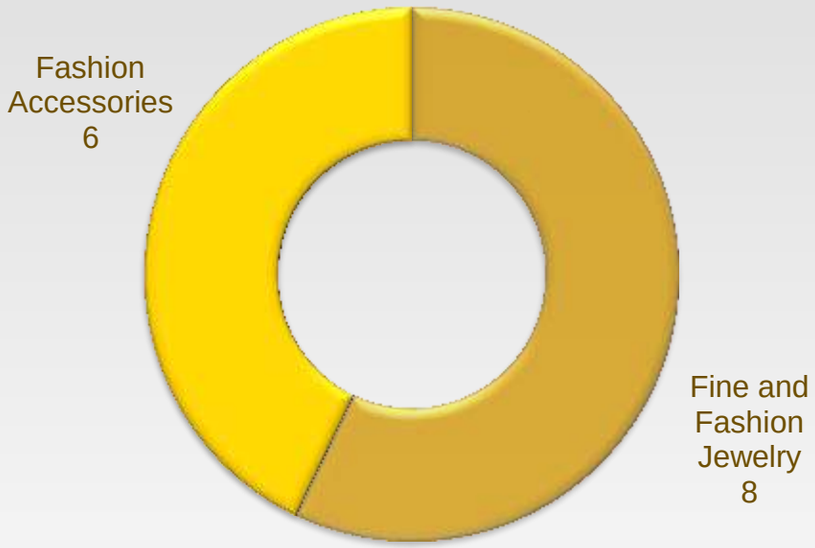
Market Opportunity

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

Bracelets, bangles, earrings, studded jewelry etc.

Watches, handbags, scarves, phone protective shells etc.

Office and home décor, etc.

Continuously expanding product range – portfolio of 65,000 designs augmented with launch of lifestyle accessories

US Market Access on Liquidation Channel

dishtv — Channel #274

Channel #399 & 1399

Verizon FiOS — Channel #159

DIRECTV — Channel #75 & 226

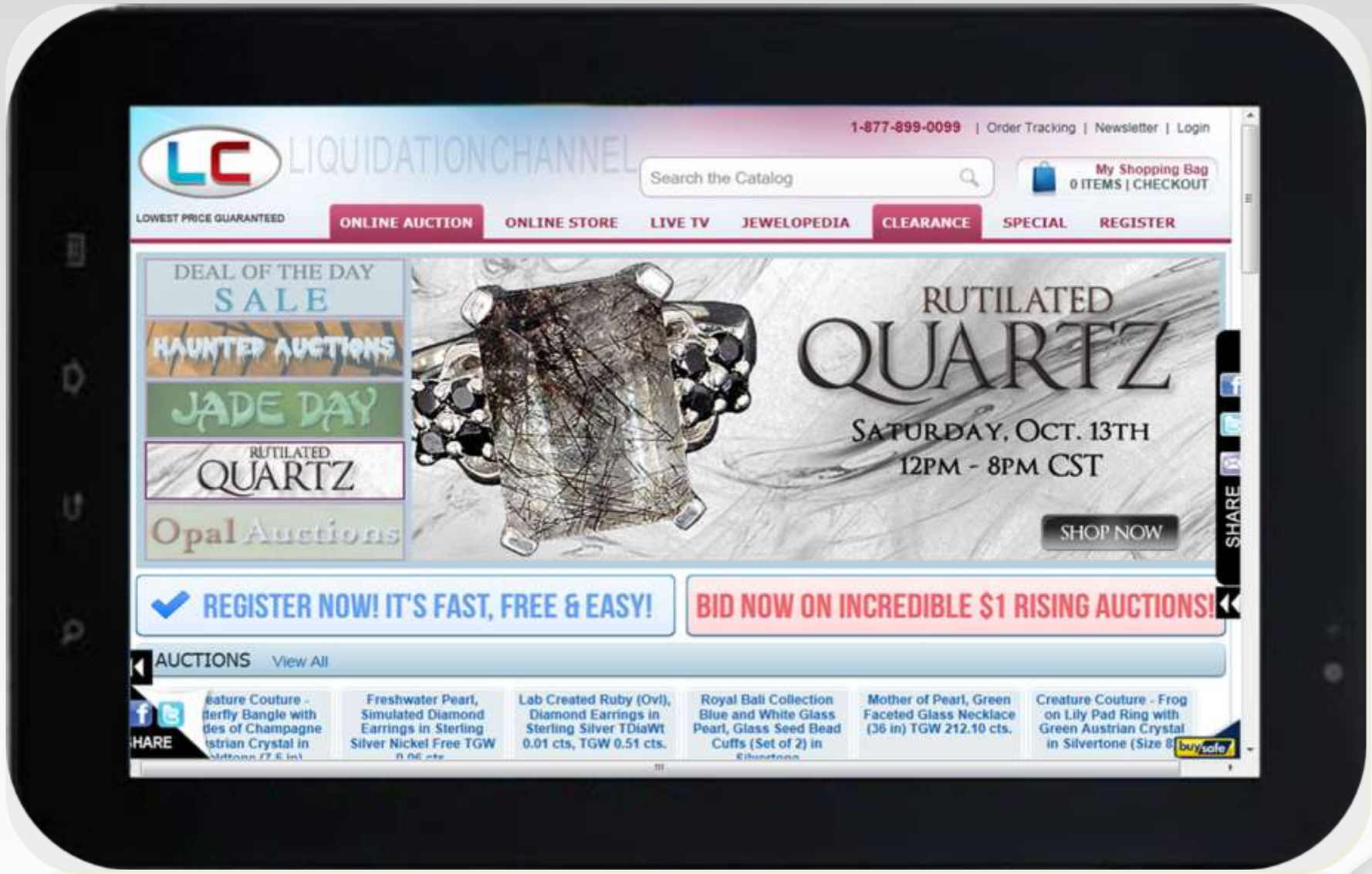
COX *

Roku *

TIME WARNER CABLE *

Charter *

comcast *



https://www.liquidationchannel.com

** Different channel # across various locations*

Access to 73 million (FTE) of the 116 million households in the US

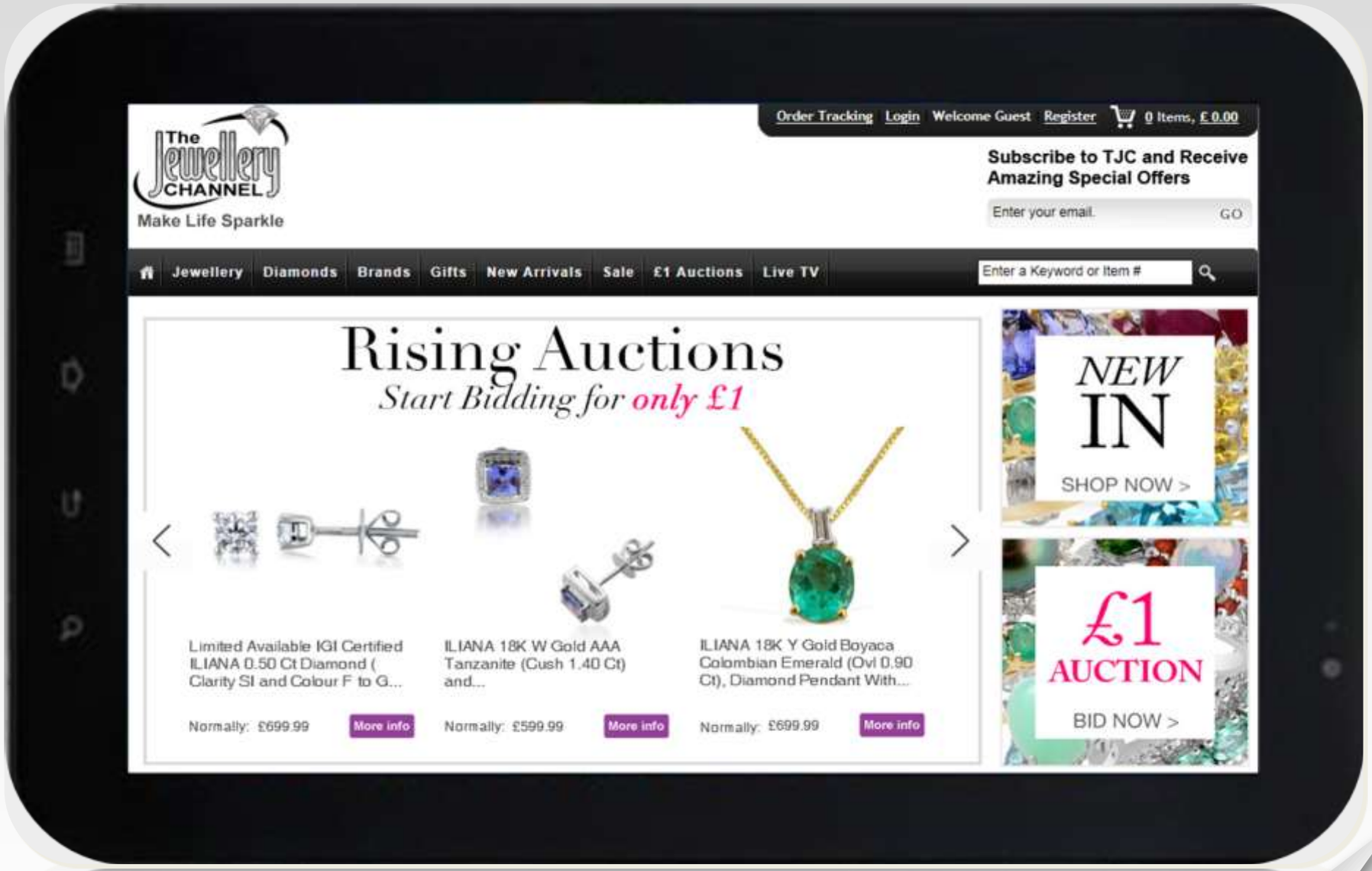
UK Market Access on The Jewellery Channel

Channel #49

Channel #650

Channel #815

Channel #757



www.thejewellerychannel.tv

Access to 25 out of the total 25 million households

Sourcing Markets

Manufacturing facility in Jaipur, India

Production capacity – 4 million pieces p.a. ISO 9001:2008 manufacturing facilities

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 120 people in purchase/ procurement and ancillary functions across Asia

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

Global network for trend spotting and merchandising

Consumption Markets

Access to over 98 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 73 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

Aligned with Demand Patterns

Collections

Valentine Day & Spring Product Line

Process begins – September

Product in warehouse – January

Mothers' Day

Process begins – December

Product in warehouse – April

Summer Product Line

Process begins – December

Product in warehouse – May

Fall Product Line

Process begins – March

Product in warehouse – August

Holiday Season

Process begins – June

Product in warehouse – October

Process

1

- Buyer discussions
- Evaluation/ feedback of last year's hits/misses
- Product development strategies – by category

2

- Discussions/ directions with global design teams

3

- Product development reviews
- Final approval to sketches/designs/ styles/concepts

4

- Live sample evaluation
- Buyer reviews

5

- Products finalized by buyers
- Orders placed

6

- Product in warehouse

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

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

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

Management Team

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

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

Contact Information

For more information on Vaibhav Global Limited, please contact:

Hemant Sultania
Vaibhav Global Ltd.
Tel: +91-141-2770648
Email: Hemant@vglgroup.com

Shiv Muttoo / Karl Kolah
CDR India
Tel: +91 22 6645 1207 / 1220
Email: shiv@cdr-india.com
karl@cdr-india.com

Thank You