



## Xtep International Holdings Limited

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

### Xtep Announces 2022 Annual Results Revenue Reaches a Record High of RMB12,930 Million

#### Highlights

- The Group's revenue rose 29.1% to an all-time high of RMB12,930.4 million (2021: RMB10,013.2 million). Revenue of the core Xtep brand achieved a record high of RMB11,127.9 million (2021: RMB8,841.3 million), a significant 25.9% growth year on year
- Operating profit of the Group increased moderately by 4.9% to RMB1,464.3 million (2021: RMB1,396.2 million). Operating profit of the core Xtep brand grew by 9.4% to RMB1,758.6 million (2021: RMB1,607.6 million)
- Profit attributable to ordinary equity holders of the Company reached RMB921.7 million (2021: RMB908.3 million), a slight increase of 1.5%. Net profit of the core Xtep brand increased by 10.7% to RMB1,345.5 million (2021: RMB1,214.9 million)
- Proposed a final dividend of HK7.1 cents per Share (2021: HK13.5 cents per Share), with an option to receive scrip shares in lieu of cash. Together with the interim dividend of HK13.0 cents per Share, the full-year dividend payout ratio was approximately 50.0% (2021: 60.0%)
- As at 31 December 2022, there were 6,313 Xtep Adult branded stores in Mainland China and overseas as well as 1,520 Xtep Kids branded stores in Mainland China
- Revenue of the athleisure segment rose 44.4% to RMB1,402.5 million (2021: RMB970.9 million). There were 72 and 56 branded stores for K-Swiss and Palladium in Asia-Pacific, respectively, as at 31 December 2022
- Revenue of the professional segment swelled 99.0% to RMB400.0 million (2021: RMB201.0 million). There were 69 and four branded stores for Saucony and Merrell in Mainland China, respectively, as at 31 December 2022

22 March 2023, Hong Kong – Leading PRC-based professional sportswear enterprise **Xtep International Holdings Limited** (the "Company", together with its subsidiaries, the "Group") (Stock code: 1368. HK) today announced its audited annual results for the year ended 31 December 2022 ("2022" or "the year").

Against the backdrop of the pandemic and macro uncertainties, our business continued to demonstrate strong resilience. The Group's revenue surged 29.1% to an all-time high of RMB12,930.4 million (2021: RMB10,013.2 million) in 2022. Revenue of the core Xtep brand also achieved a record high of RMB11,127.9 million (2021: RMB8,841.3 million), a significant 25.9% growth year on year. Operating profit of the Group increased moderately by 4.9% to RMB1,464.3 million (2021: RMB1,396.2 million). Operating profit of the core Xtep brand grew by 9.4% to RMB1,758.6 million (2021: RMB1,607.6 million). Profit attributable to ordinary equity holders of the Company reached RMB921.7 million (2021: RMB908.3 million), a slight increase of 1.5%. Net profit of the core Xtep brand increased by 10.7% to RMB1,345.5 million (2021: RMB1,214.9 million). Basic earnings per Share was RMB36.6 cents (2021: RMB36.4 cents).

The Board has proposed a final dividend of HK7.1 cents per Share (2021: HK13.5 cents per Share), with an option to receive scrip shares in lieu of cash. Together with an interim dividend of HK13.0 cents per Share, the full-year dividend payout ratio was approximately 50.0% (2021: 60.0%).

**Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited**, said, "While running continued to enjoy the fastest growth momentum of any sports category, we spared no effort to strengthen the largest running ecosystem in Mainland China to maintain our leadership position in running. We are optimistic about the business outlook for 2023 and beyond as benefited from the recent border reopening. Moreover, the launch of a nationwide fitness plan in Mainland China from 2021-2025, with a

commitment to increasing sports facilities and resources and raising the rate of regular exercise among the population, will drive the total value of the country's sports industry to RMB5 trillion by 2025. The Group is well positioned to capitalize on the nation's passion for fitness to fuel its business growth and strive for long-term structural benefits in a sustainable manner through our multi-brand portfolio."

## **Business Review**

### ***Mass Market***

#### **Xtep**

As the most preferred brand among Chinese runners, the core Xtep brand strengthened its leading position in running through the well-established running ecosystem, covering best-in-class running products, marathon sponsorships, Xtep Running Clubs and Xtep Runners Club members. Our dedication to creating high-quality running products has been reflected in the continued fondness of our running shoes among professional runners. Xtep running shoes registered a 35% overall wear rate, and ranked first among the top 100 male marathoners of all brands<sup>1</sup>.

#### *Products*

The "160X" carbon fiber plate running shoes series has seen the birth of champions since its launch three years ago, helping 49 Chinese athletes win 228 championships and break national records thus far. In March 2023, He Jie and Yang Shaohui wore the "160X 3.0 PRO" to break an over 15-year-old national marathon record with a time of 02:07:30 and 02:07:49, respectively, at Wuxi Marathon. In December 2022, Peng Jianhua and Dong Guojian wore the "160X 3.0 PRO" to set new national records with a time of 01:02:30 and 01:02:37, respectively, at Xiamen Huandong Half Marathon. Our "160X 2.0" also assisted Nazret Weldu from Eritrea to break the national record at the women's marathon final of the 2022 World Athletics Championships, achieving a record time of 2:20:29 in July 2022 and surpassing the Eritrean national record that she had previously set.

The new generation "160X 3.0 PRO" under the "Championship Running Shoes" series "160X" was unveiled in September 2022 to showcase our capacity to innovate. The "XTEP ACE" cushioning technology adopted by the shoes employs the world's first "PISA" supercritical foaming technology to give professional runners excellent rebound and propulsion. According to an appraisal report published by the international institution, the "160X 3.0 PRO" is comparable with or even superior to the top running shoes of major overseas brands in terms of cushioning, slip resistance, wear resistance and rebound.

A year after the debut of the first generation "260", Xtep launched the fully upgraded "260 2.0" running shoes in September 2022. The new model improves on its predecessor, with the world's first PISA supercritical foaming "XTEP ACE" cushioning technology being used in the midsole to create an excellent rebound of over 70%. The full-length nylon fiber plate plus advanced slip-resistant and durable marathon-level CPU outsole enhance running efficiency while ensuring cushioning performance.

#### *Marathon events and sports celebrities*

In the second half of 2022, selective physical marathons and running events were resumed when the outbreak was more effectively controlled. These included three highly anticipated marathons, namely the 2022 Xiamen Marathon – one of the most prestigious marathons in Mainland China sponsored by Xtep, and was awarded the World Athletics Road Race Elite Platinum Label, as well as the Shanghai Marathon and Beijing Marathon.

Empowered by the "160X" series, Xtep's sponsored sports celebrities achieved stunning results in the aforementioned marathons and its running shoes also recorded exceptional wear rates. Feng Peiyou and Yang Shaohui claimed the men's title in Xiamen Marathon and Shanghai Marathon, respectively, by wearing Xtep's "160X" running shoes. The wear rate of Xtep running shoes worn by participants who finished the

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<sup>1</sup> Source: 98 Run – footwear worn by top 100 male marathoners and top 100 female marathoners in Mainland China in 2022.

Xiamen Marathon within three hours reached 53.8%, ranking top among all brands. The wear rate at the Shanghai Marathon was 25.2%, ranking number one and two among domestic and all brands, respectively.

Furthermore, Xinjiang runner Anubaike Kuwan wore Xtep's history-making "160X 3.0 PRO" running shoes to win the Beijing Marathon, taking a place on the winner's podium that has traditionally been dominated by international brands. Moreover, the overall wear rate of Xtep running shoes at the Beijing Marathon placed it top among domestic brands and among the top four brands overall.

### *Retail management and branding*

Providing a cohesive customer experience through retail channel upgrade and store openings in the ninth-generation format successfully enhanced customer satisfaction and the cross-selling rate during the year. The use of vibrant visual merchandising, such as lighting control, AI robots, digital signage and rising stages, in the ninth-generation stores featuring larger store area has continued to be a key tool for the brand to attract, connect with and engage younger audiences. These efforts have also allowed us to establish a younger customer base to underpin long-term sustainable growth of the brand. As at 31 December 2022, there were 6,313 Xtep Adult branded stores mainly operated by authorized distributors of the Group in Mainland China and overseas.

### *Xtep Kids*

The successful restructuring, spanning products to branding and retail network management, has laid a solid foundation for the robust growth of the Xtep Kids business in recent years amidst the pandemic. Riding on the government's support for enhancing fitness accessibility among children, we swiftly increased our investment in the Xtep Kids business in 2022 to take advantage of the emerging market opportunities. As at 31 December 2022, there were 1,520 stores mainly operated by authorized distributors of the Group (31 December 2021: 1,179 POS) in Mainland China for Xtep Kids.

### **Athleisure**

#### **K-Swiss and Palladium**

Gradual recovery from the pandemic and supply chain disruptions provided support to the improvement in the overseas business operations of K-Swiss and Palladium. In 2022, revenue from the athleisure segment increased by 44.4% to RMB1,402.5 million, accounting for 10.8% of the Group's revenue.

As we continued to optimize the product mix and designs to alter consumers' perception of K-Swiss and enhance competitiveness, the brand saw a vast improvement in the productivity of its pilot stores and other operational metrics in Mainland China during the year. Since the launch of the first store in January 2022, we accelerated store openings in higher-tier cities in the second half of 2022. As at 31 December 2022, there were 72 K-Swiss branded stores in Asia-Pacific, including Mainland China.

In 2022, Palladium persisted in focusing on business priorities that make a difference, including optimizing the retail network and product portfolio for its stores in Mainland China. More new image stores with fine-tuned products were rolled out in premium shopping malls during the year to raise brand awareness. As at 31 December 2022, there were 56 Palladium branded stores in Asia-Pacific, including Mainland China.

### **Professional Sports**

#### **Saucony and Merrell**

Despite the pandemic, Saucony was successful in demonstrating its growth potential in Mainland China, with stunning store productivity and enhanced recognition among elite runners. Revenue from the professional sports segment achieved strong and consistent year-on-year growth of 99.0% to RMB400.0 million, accounting for 3.1% of the Group's revenue in 2022.

During the year, we directed our efforts towards expanding Saucony's retail network through the Xtep Running Clubs and new store openings in iconic and premium shopping malls in higher-tier cities in Mainland

China. The increased brand exposure together with excellent product design and superior performance have enabled Saucony's running shoes to gain the attention of professional runners in Mainland China. Its popularity was evidenced by the outstanding wear rate at various large-scale marathons. It was ranked top three among all brands based on its overall wear rate at the 2022 Shanghai Marathon. In addition, its overall wear rate placed it among the top three and top four among all international brands in the 2022 Xiamen Marathon and Beijing Marathon, respectively. As at 31 December 2022, there were 69 Saucony branded stores and four Merrell branded stores in Mainland China.

## **Prospects**

With Mainland China's swift reopening after nearly three years of stringent epidemic control, the government's unprecedented efforts to promote sports development, and steady growth of sports participation and running population in the country, the sporting goods industry is exhibiting a positive outlook. These favorable national policies and market trends will create tremendous opportunities for best-in-class running products, thus strengthening the Group's confidence in its business performance for 2023 and beyond.

In addition to possessing strong product technologies guided by the new "World-class Chinese Running Shoes" strategic positioning, the core Xtep brand will continue to solidify its unique brand equity by creating an international standard running ecosystem, from building one of the largest and most active branded running groups in Mainland China and sponsoring sporting events to partnering with high-profile athletes and offering running incentive schemes. Meanwhile, the professional sports segment lived up to expectations with a remarkable performance during the year. Saucony, in particular, shrugged off the impact of COVID-19 with its cutting-edge technologies and strong reputation among Chinese consumers. By scaling up operations through resources sharing with the core Xtep brand and accelerating store openings to expand its retail network, Saucony is expected to capitalize on the growing demand for professional sportswear and make outstanding gains alongside the anticipated economic recovery.

Furthermore, the Chinese government's shift from academia to a new focus on fitness has prompted a renewed interest in the potential of the childrenswear market. We expect to maintain a high-growth trajectory in the next few years, supported by a successful restructuring with brand upgrades and product enhancements in the children's business. The core Xtep brand and Xtep Kids will simultaneously open more next-generation stores with impeccable customer experiences to boost store productivity and increase market share.

Inflation and geopolitical tensions, particularly in the US and Europe, have put consumer spending and the overall economy on a weaker growth path heading into 2023. Thus, we remain cautious on the short-term outlook for the overseas business in the athleisure segment. On the contrary, K-Swiss has made remarkable progress in its pilot stores in Mainland China since 2022, paving the way for steady growth. It is expected that accelerated store openings in higher-tier cities, along with a modified product mix, will unlock the brand's full potential. As for Palladium, retail network optimization in the form of new store layouts will continue to be implemented to enhance the in-store experience and enable the brand to build a stronger connection with the younger generation.

The gradual recovery of consumer confidence in Mainland China will guide the Group through the short-term economic uncertainty triggered by COVID-19, allowing for a positive long-term outlook for China's sportswear industry. The Group is confident in pursuing sustainable growth, increasing market share through its robust "Fifth Five-Year Plan", and solidifying its position as one of the leading sportswear companies in Mainland China.

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**About Xtep International Holdings Limited**

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange in 2008. The Group principally engages in the design, development, manufacturing, sales, marketing and brand management of sports products covering footwear, apparel and accessories for adults and children. With a diverse brand portfolio encompassing the core Xtep brand, K-Swiss, Palladium, Saucony and Merrell to strategically target the mass market, athleisure and professional sports segments, the Group has an extensive global distribution network and more than 8,000 stores in Asia-Pacific, North America and EMEA.

Xtep is a constituent of the MSCI China Index and Hang Seng Composite Index Series, and is an eligible stock under the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect. For more information, please visit Xtep's corporate website: [www.xtep.com.hk](http://www.xtep.com.hk) or scan the Group's Wechat QR code below.



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## Appendix

### 2022 Annual Results Financial Highlights

For the Year Ended 31 December	2022	2021	Change
<b>Profitability Data (RMB million)</b>			
Revenue	12,930.4	10,013.2	+29.1%
Gross Profit	5,291.7	4,177.9	+26.7%
Operating Profit	1,464.3	1,396.2	+4.9%
Profit Attributable to Ordinary Equity Holders	921.7	908.3	+1.5%
Basic Earnings per Share (RMB cents)	36.6	36.4	+0.7%
<b>Profitability Ratios</b>			
Gross Profit Margin	40.9%	41.7%	-0.8% pt
Operating Profit Margin	11.3%	13.9%	-2.6% pts
Net Profit Margin	7.1%	9.1%	-2.0% pts
Dividend Payout Ratio	50.0%	60.0%	-10.0% pts
	As at 31 December 2022	As at 31 December 2021	Change
Net cash and cash equivalents	1,225.7	1,925.4	-36.3%

### Group Revenue & Gross Profit Margin Breakdown

#### By product

For the Year Ended 31 December	2022	2021	Change
<b>Footwear</b>			
Revenue (RMB million)	7,760.2	5,928.2	+30.9%
Gross Profit Margin	40.9%	42.8%	-1.9% pts
<b>Apparel</b>			
Revenue (RMB million)	4,896.9	3,887.4	+26.0%
Gross Profit Margin	41.3%	40.6%	+0.7% pt
<b>Accessories</b>			
Revenue (RMB million)	273.3	197.6	+38.2%
Gross Profit Margin	33.7%	31.6%	+2.1% pts

#### By brand nature

For the Year Ended 31 December	2022	2021	Change
<b>Mass Market</b>			
Revenue (RMB million)	11,127.9	8,841.3	+25.9%
Gross Profit Margin	41.3%	41.4%	-0.1% pt
<b>Athleisure</b>			
Revenue (RMB million)	1,402.5	970.9	+44.4%
Gross Profit Margin	37.6%	44.6%	-7.0% pts
<b>Professional Sports</b>			
Revenue (RMB million)	400.0	201.0	+99.0%
Gross Profit Margin	42.7%	40.3%	+2.4% pts