OROTONGROUP

2017 FULL YEAR RESULTS ANNOUNCEMENT

29 September 2017

OROTON GROUP ANNUAL RESULTS – STRATEGIC REVIEW CONTINUES

The Board of OrotonGroup Ltd (the Company) today announced the Company's financial results for the year ended 29 July 2017 (FY17).

In summary:

- Group Revenue declined 10%, with Oroton like for like (LFL) store sales -6%[1], and Gap LFL sales -11%.

- Underlying EBITDA[2][3] of $2.7m (FY16 $12.9m) in line with previous guidance announced in May 2017 of $2-3m
    - Reduction in Group underlying EBITDA compared to last year primarily due to increased Gap losses, discontinued Oroton categories[4], lower sales volumes in Sale periods and Oroton Factory Outlets, and a material fall in the USD hedge buying rate to 0.81
    - Group underlying EBITDA comprised of $12.9m core Oroton brand EBITDA, $7.7m unallocated underlying group costs and Gap underlying EBITDA losses of $2.5m.

- Reported EBITDA was a loss of $7.0m (FY16: $12.9m profit) following the booking of $9.7m[3] of non-core pre-tax items. These expenses include $8.9m[3] of costs associated with the termination of the Australian Gap Franchise Agreement, and other non-core corporate expenses of $0.8m[3] .

- The Group also booked non-cash fixed asset impairments of $2.3m in Gap in relation to the planned exit and $3.5m in Oroton. The impairments in Oroton were booked following the disappointing sales results during key Sale periods since Boxing Day 2016 and the soft retail outlook.

- Reported NPAT was a loss of $14.3m (FY16 a profit of $3.4m).

- Group net debt at year end was $5.4m[5] (FY16 $2.8m net cash).

OrotonGroup Interim Managing Director and CEO, Ross Lane, commented, "The Company's annual results are disappointing notwithstanding that the underlying EBITDA of $2.7m is consistent with our May 2017 forecast reflecting the soft and competitive retail environment and adverse currency impacts.

The outcome of the first phase of the Strategic Review announced in May 2017 has been the decision to focus on the core Oroton brand. To this end, the Company has now terminated the Australian Gap franchise agreement and reached in principle agreements with major Gap landlords to exit its Gap store lease commitments at the end of 1H18.

This, together with the previously announced extension of the Group's financing arrangements with Westpac to 5 October 2018, are important milestones.

The Company is fortunate that one of its major shareholders, Will Vicars, agreed on 31 July 2017 to provide credit support to the Company's financier Westpac, which will allow the Company sufficient time and financial flexibility to work through the closure of the Gap franchise, focus resources on the future strategy for the core Oroton brand and continue to explore various strategic options in an orderly and comprehensive manner.

My team and I are passionate about our iconic Oroton brand and loyal customer, and we are focused on improving the future performance of the Company."

REPORTED	FY17 $m	FY16 $m
Revenue	123.2	136.4
Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment (EBITDA)(2)	(7.0)	12.9
Comprising:		
- EBITDA Oroton	12.9	19.9
- EBITDA Gap	(11.3)	1.0
- EBITDA Unallocated	(8.5)	(7.9)
Earnings Before Interest and Tax (EBIT)	(17.3)	6.2
Net Profit / (Loss) After Tax (NPAT)	(14.3)	3.4
Basic Earnings Per Share (EPS) (Cents)	(34.68)	8.4
Dividend Per Share (DPS) (Cents – Fully franked)	0.0	9.0
Net Cash / (Debt)(5)	(5.4)	2.8
UNDERLYING	**FY17 $m**	**FY16 $m**
Underlying EBITDA (3)	2.7	12.9
Comprising:		
- Underlying EBITDA Oroton	12.9	19.9
- Underlying EBITDA Gap	(2.5)	1.0
- Underlying EBITDA Unallocated	(7.7)	(7.9)
Underlying EBIT (6)	(1.7)	7.9
Underlying NPAT (6)	(3.3)	4.6
Underlying Basic EPS (Cents) (6)	(8.15)	11.4

Footnotes (1) – (6) refer end of announcement
Due to rounding, numbers presented in the table above may not add up precisely to the totals provided

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Sales in First Retail and Concession stores from continuing categories were +1.3%, however total Oroton revenue declined $9.7m or 9% due to exiting non core categories(4) such as apparel, footwear and lingerie ($5.7m), reduced sales in Factory Outlets ($2.2m) and one less week of trading ($1.8m).

Oroton was impacted by the soft and competitive retail environment during key Sale periods which commenced from Boxing Day and continued during the Mid Season and End of Season Sale periods. Importantly sales growth was positive during New Season launch periods. Increased competition in Factory Outlets resulted in lower sales performance in this channel.

The constant currency gross margin of the Oroton brand improved approximately ~150bps driven by improved margin in the First Retail and Concession stores, however the impact of a higher USD resulted in a net margin decrease of 110bps and a negative currency impact of $2.6m.

GAP

Sales declined by 11% driven by poor sales during the important Mid Season and End of Season Sale periods and a Spring/Summer range which did not resonate. The above results were achieved in a heavily promotion and discount driven apparel market as well as increased international competition in all locations.

The Company booked $11.3m of costs associated with the planned exit of the Gap Franchise. This $11.3m comprises $5m of non-core costs related to the Gap closure announced on 31 August 2017 in addition to a net $6.3m of costs recognised in relation to the early exit of Gap leases and other unavoidable onerous lease expenses net of provisions.

THE DAILY EDITED

On 4 April 2017 the Group acquired 31.4% of TDE Pty Limited ("TDE"), an Australian lifestyle fashion accessories brand.

Sales were $19m in FY17, a threefold increase on FY16. The brand has a strong online presence with over 250,000 social media followers and more than 50% of revenue is generated from online sales both in Australia and Internationally.

OUTLOOK

Ross Lane, said “The decision to exit the Australian Gap franchise allows the Company to focus on the core Oroton brand and the Strategic Review.

We have a renewed focus on the creative direction of the Oroton brand, together with enhancing our customer experience at all touch points across all channels. We are proud of the recent launch of the Spring/Summer campaign and rejuvenated website.

Although it is early in the year with only 8 weeks of trading, Group sales and margin are above last year, with Gap trading in line with its exit plan, and Oroton brand constant currency gross margin above prior year. The latter is pleasing given our focus on reducing aggressive discounts in Oroton Factory Outlet stores, which has created a drag on the overall Oroton brand performance compared to prior year. Specific initiatives to improve the performance in the Factory Outlet channel are continuing to be implemented in conjunction with our objective of achieving positive constant currency margin generation.

Currency impacts continue to be a major headwind for the Group with the hedge rates reaching a low point in FY18 at ~0.72 (FY17: ~0.81).

The progression of the Strategic Review continues to be a key priority which may include a sale, refinancing of debt facilities or recapitalisation of the Company. It is aimed at maximising value and creating options for the Company and its stakeholders. Whilst the Group continues to engage with interested parties in the process, there is no certainty this process will result in a proposal or transaction for OrotonGroup”.

Non-IFRS information

The financial information provided includes non-IFRS information which have not been audited or reviewed in accordance with Australian Accounting Standards but are based on the Annual Report. This information is provided to assist readers in making appropriate comparisons with prior periods and to assess the performance of OrotonGroup.

This non-IFRS information is referenced to the following footnotes:

1. *LFL store sales excluding week 53 in FY16 and discontinued categories[(4)]*
2. *EBITDA is Earnings before Interest, Tax, Depreciation, Amortisation and Impairments.*
3. *FY17 Underlying EBITDA[(2)] results are reconciled to IFRS audited measurements through the deduction of share of profits of associates accounted for using the equity method ($23,000) and add back of management separation ($458,000), strategic review ($373,000), onerous lease and lease exit costs net of provisions for Gap franchise ($6,297,000) and other Gap related costs ($2,550,000)*
4. *Oroton discontinued categories are lingerie, footwear and apparel*
5. *Excluding letters of credit and guarantees of ~$7.1m*
6. *FY17 Underlying results are reconciled to IFRS audited measurements through the deduction of share of profits of associates accounted for using the equity method ($23,000) and add back of management separation ($458,000), strategic review ($373,000), end of Gap franchise arrangements ($8,847,000), GAP make good adjustment ($124,000) and non-cash noncurrent store asset impairment for Gap ($2,333,000) and Oroton ($3,540,000). Underlying comparatives are reconciled to IFRS audited measurements through the add back of non-cash store asset impairments ($1,643,000).*

Important notice and disclaimer

This presentation includes information about the activities of OrotonGroup Limited ("OrotonGroup") which is current as at 29 September 2017. It is in summary form only and is not intended or represented to be complete. No representation, express or implied, is made as to the fairness, accuracy, completeness or correctness of information contained in this presentation.

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Please read this announcement in conjunction with OrotonGroup's FY17 Annual Report, the Investor Presentation dated 29 September 2017, and other periodic and continuous disclosure announcements filed with the Australian Securities Exchange. These are available at www.orotongroup.com

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