OROTONGROUP

FY17 INVESTOR PRESENTATION
29 September 2017

OROTON

GAP

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Gap Exit and Currency Impact Full Year Earnings

	FY17 Reported $ M	FY16 Reported $ M	FY17 Underlying $ M	FY16 Underlying $ M
Revenue	123.2	136.4	123.2	136.4
- Group LFL Sales Growth	-10.3%	+2.2%	-10.3%	+2.2%
Gross Margin (%)	58.0%	60.1%	58.7%	60.1%
Cost of Doing Business[1]	78.5	69.1	69.8	69.1
Cost of Doing Business (%)	63.7%	50.7%	56.6%	50.7%
EBITDA [2] [3]	(7.0)	12.9	2.7	12.9
Comprising (rounded):				
- Oroton	12.9	19.9	12.9	19.9
- Gap	(11.3)	1.0	(2.5)	1.0
- Unallocated	(8.5))	(7.9)	(7.7)	(7.9)
EBITDA Margin (%)	-5.6%	9.5%	2.2%	9.5%
EBIT [4] [5]	(17.3)	6.2	(1.7)	7.9
EBIT Margin (%)	-14.1%	4.5%	-1.4%	5.8%
NPAT	(14.3)	3.4	-3.3	4.6
EPS (cents)	(34.68)	8.43	(8.15)	11.40
DPS (cents) / Fully franked	0.0	9.0		
Net Cash / (Debt)	(5.4)	2.8		

Due to rounding, numbers presented in the table above may not add up precisely to the totals provided

(1) Cost of Doing Business: Total operating expenses less finance costs, depreciation, amortisation and impairments
(2) EBITDA is Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment
(3) FY17 Underlying EBITDA 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).
(4) EBIT is Earnings before interest and tax
(5) 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 depreciation adjustment ($124,300) and non-cash store asset impairment for Gap ($2,333,000) and Oroton ($3,541,100). Underlying comparatives are reconciled to IFRS audited measurements through the add back of non-cash store asset impairments ($1,643,000).
(6) LFL store sales excluding week 53 in FY16 and discontinued categories of Oroton lingerie, footwear and apparel
(7) Excluding letters of credit and guarantees of ~$7.1m

- **Group Revenue down -10.3% LFL to $123.2m**
  - Oroton LFL store sales**[6]** -6% driven by Outlets and one less week of trading
  - Gap sales -11%
- **Gross margin declined 210bps to 58.0%**
  - Driven by $3.4m of currency impacts due to higher USD denominated purchases ($2.6m Oroton and $0.8m Gap) and $0.9m of noncore Gap inventory provision due to exit
  - Average hedge rate in FY17 ~0.81 (FY16: ~0.86)
  - Underlying gross margin before currency and noncore Gap inventory provision improved 140bps
- **CODB[1] increased $9.4m** due to Gap exit costs $8.9m and other noncore costs 0.8m[5]; **Underlying CODB** increased 1%
- **Underlying EBITDA[3] $2.7m** declined $10.2m from FY16 due to Gap EBITDA decline of $3.5m; reduced Oroton GM$ in constant currency of $3.5m from exiting non core categories, Outlets and 1 less trading week and $2.6m of currency impact in Oroton
- **Reported EBITDA $7.0m loss** declined per the underlying EBITDA above plus noncore Gap exit costs of $8.9m and other noncore costs of $0.8m
- **EBIT reduced to a loss of $17.3m** primarily due to booking of noncore costs on Gap exit of $8.9m and other noncore costs of $0.8m together with declines in underlying Gap EBITDA $3.5m and underlying Oroton EBITDA $7.0m. In addition noncash fixed asset impairments and make good depreciation was $2.4m in Gap due to the exit and $3.5m in Oroton due to FY17 trading results and a soft retail outlook. The above figures include currency impacts of $3.4m
- **Net debt[7] $5.4m** at year end

Oroton – Renewed focus on creative direction and customer experience

- Oroton sales declined $10m or 9% due to exiting discontinued categories ($5.7m), reduced sales in Factory Outlets ($2.2m) and one less week of trading ($1.8m)
- Constant currency gross margin improved ~150bps however the impact of higher a USD resulted in a net margin decrease of 110bps and a negative currency impact of $2.6m
- H1 sales performance at -4% improved in H2 to +1% (excluding discontinued categories and week 53 in FY16) led by new store openings of Sydney International and 2 Myer concessions
- Women's handbags achieved 15% unit and 8% revenue growth in full price and concession stores, with the launch of the best selling Forte and Estate ranges
- Decline in Factory Outlet sales driven by Men's and Women's handbags
- Renewed focus on the creative direction, together with enhancing our customer experience at all touch points across all channels
  - Launch of fresh Spring/Summer campaign targeted at our core customer
  - New website launched – mobile responsive to enhance the user experience and increase conversion
  - Focus on range and price architecture in all distribution channels including new capsules
  - Continue limited edition range, and expand to more price points
  - Extend platforms to allow single view of customer and customer communication
- New supply chain solution in FY18 with the opening of the new Sydney DC to improve customer service and end to end supply chain visibility, to result in cost savings
- There were 59 Oroton stores at year end (FY16: 63 stores), 5 openings and 9 closures due to marginal performance. The Group will continue to review stores at lease expiry across the portfolio to rationalise the "bricks" store network

Gap – managed and orderly wind down of Gap stores in H1 FY18

- Gap performance deteriorated over FY17, with underlying EBITDA declining by $3.5m. Reported EBITDA was a further $8.9m decline due to noncore costs associated with the planned exit of Gap Franchise

- Sales declined by 11% driven by the Spring / Summer range which did not resonate and during the important Mid Season and End of Season Sale periods. The above results were achieved in a heavily promotion and discount driven apparel market. Gross margin in constant currency declined 120bps.

- Currency impacts due to higher USD denominated purchases of negative $0.8m

- On 4 August 2017 the Group entered into a binding agreement with Gap Inc to discontinue the Gap franchise business in Australia with store closures targeted for completion by 31 January 2018

- $11.3m of noncore costs associated with the planned exit of the Gap Franchise are expensed in FY17 comprising $9.7m of cash and $1.6m non-cash (rounded):

  Cash
    - cost to exit lease contracts of $5.2m
    - net unavoidable onerous lease costs of $2.9m
    - hedge contract ineffectiveness of $0.9m
    - professional fees incurred of $0.7m

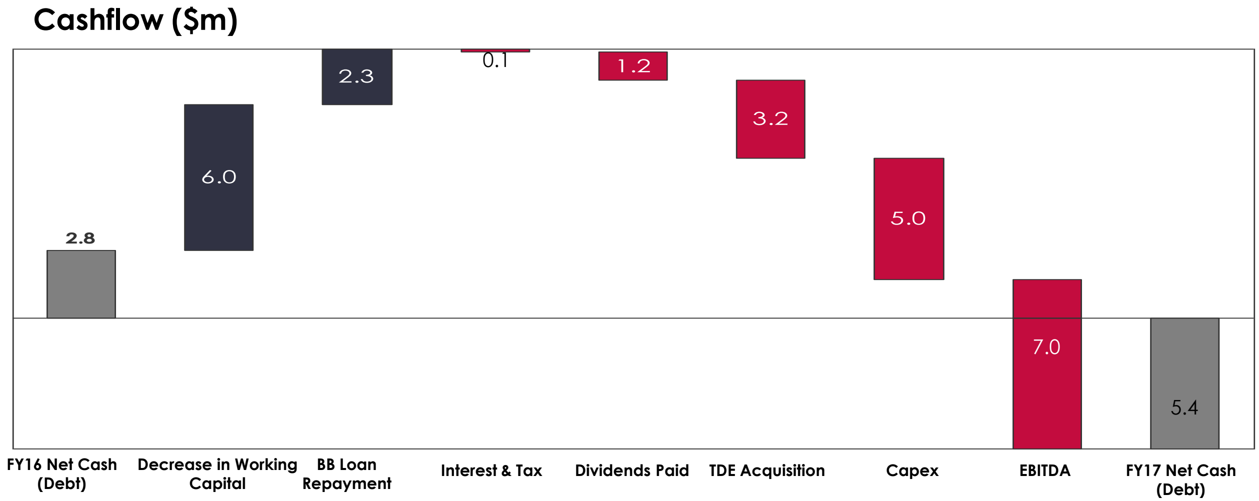
  Non-cash
    - inventory provisions of $0.9m
    - make good depreciation of $0.1m
    - store asset impairments of $2.3m

  Offset with:
    - accelerated unwind of fixed rental increases $0.6m
    - accelerated amortisation of deferred lease incentives $0.9m
    - reversal of make good provisions of $0.3m

- Further noncore costs associated with the closure to be incurred in FY18 are redundancy and termination costs estimated to be approximately $1.2m, and other fees unable to be estimated at this time

Net debt at year end $5.4m with deterioration in net assets mainly due to Gap closure and High year end spot rate

	FY17 Reported ($ M)	FY16 Reported ($ M)
PP&E	5.3	10.8
Inventory	35.5	30.7
Net Assets	18.7	35.7
Net Cash / (Debt)	(5.4)	2.8
Operating cash flow (before interest and tax)	(1.0)	17.0



- Net debt at year end was $5.4m, compared to net cash of $2.8m at the prior year end. The Group has a $35m bank facility of which $20.9m was unused at year end. The facility is due to expire on 5 October 2018. Entities controlled by Mr J Will Vicars entered into a put and call arrangement with Westpac to provide critical credit support to 16 April 2018
- The Group's operating cash used (before interest and tax) was $1.0m (FY16: $17m cash) due to a decrease in EBITDA of $7m offset by the offsetting decrease in working capital across Oroton and Gap of $6m mainly due to provisions and payables related to the Gap exit
- Inventory increased $5.7m at year end vs last year (before Gap noncore inventory provision of 0.9m) of which $3.7m was due to higher purchasing costs denominated in USD and $2m is related to volume and timing
- Investment in capital expenditure was $5.0m including 5 new Oroton stores, 9 refurbished/renovated Oroton stores, and investment in the Group's supply chain systems and new mobile responsive site
- In the current year Brooks Brothers International LLC repaid $2.3m of outstanding loans
- In the current year the Group acquired 31.4% of TDE Pty Limited for $4.5m comprised of $2.67m of cash and $1.83m ORL shares. Additionally there were $0.5m of professional fees
- At year end the fair value of cash flow hedges is a $7m liability as the USD:AUD year end spot rate was 79.8c vs average hedge rate of 72.8c

Summary & Outlook for FY18 – Strategic Review continues

Milestones

- Important milestones have been achieved since commencing the Strategic Review in May 2017 that allow the company to maximise value and create options for the Company and its stakeholders
  - Extended Facility Agreement with Westpac from 16 April 2018 to 5 October 2018
  - Terminated the Gap Franchise Agreement with Gap stores targeted to close by 31 January 2018
  - Reached in principle agreements with major Gap Landlords to exit its Gap lease commitments

GAP closure

- Company is now able to manage the wind down of the 6 Gap stores in a controlled and orderly manner
- Allows the Company to focus resources on the strategy for the core Oroton brand

Oroton brand

- 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
- Various operational initiatives are being undertaken around key areas of brand, products, clientele and marketing, distribution channels, supply chain and cost efficiencies

FY18 Outlook

- The general retail outlook remains soft, in a competitive and heavily discount driven market
- 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)
- Oroton is focussed on generating positive constant currency margins

Strategic Review

- 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
- The Group continues to engage with interested parties in the process

Store Listing – as at July 2017 there were 61 Oroton and 7 GAP stores (including online stores)

OROTON

AUSTRALIA & NEW ZEALAND

ACT

CANBERRA

NSW

BIRKENHEAD POINT
BONDI JUNCTION
BURWOOD
CASTLE TOWERS
CHATSWOOD
DJ's ELIZABETH STREET
DJ'S CHATSWOOD
DJ'S BONDI
HOMEBUSH
HORNSBY
KOTARA
LIVERPOOL
MACQUARIE CENTRE
MIRANDA
MYER SYDNEY
PARRAMATTA
PITT ST MALL
Q V B
SYDNEY INTERNATIONAL AIRPORT
SYDNEY DOMESTIC AIRPORT
WARRINGAH MALL
WESTFIELD SYDNEY

WESTERN AUSTRALIA

DJ'S PERTH
GARDEN CITY
HAY STREET
KARRINYUP
WATERTOWN

VICTORIA

CHADSTONE
DJ'S BOURKE STREET
DJ'S CHADSTONE
DONCASTER
EMPORIUM
ESSENDON
EASTLAND
HIGHPOINT
MOORABBIN
MYER MELBOURNE
NUNAWADING

QUEENSLAND

BRISBANE CBD
BRISBANE DFO
CARINDALE
CAIRNS
DJ'S BRISBANE
HARBOURTOWN GOLD COAST
INDOOROOPILLY
PACIFIC FAIR
ROBINA

SOUTH AUSTRALIA

ADELAIDE CBD
BURNSIDE VILLAGE
DJ'S RUNDLE MALL
HARBOURTOWN SA
MARION

NEW ZEALAND

OSBORNE STREET
ONEHUNGA

ASIA

MALAYSIA

GENTING
JOHOR BAHRU
KLCC
1 UTAMA

ONLINE

www.oroton.com
www.davidjones.com.au/Oroton

GAP

AUSTRALIA

NSW

MACQUARIE
MIRANDA
PARRAMATTA
WESTFIELD SYDNEY

VICTORIA

CHADSTONE
MELBOURNE CENTRAL

ONLINE

www.davidjones.com.au/Gap

WHO IS TDE?

Launched in August 2014 and founded by Alyce Tran and Tania Liu (two ex-lawyers), The Daily Edited (TDE) is a lifestyle accessories brand. The brand has grown exponentially in the last few years, having 100 staff globally. TDE primarily retails through its online store at **shoptde.com**.

TDE is all about creating products where form meets function, a notion of understated chic and the creation of products with a luxury feel at an attainable price point. The entire line is able to be personalised with a customer's initials, name or even bespoke special message.

New pieces are released every 4-6 weeks, providing a reason for consumers to always pop back in store or online to see what's new.

STATS

On 4 April 2017 the Group acquired 31.4% of TDE Pty Limited ("TDE")

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

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