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OrotonGroup Limited (Subject to Deed of Company Arrangement)
ACN 000 038 675

Explanatory Statement

9 July 2018

1 Overview

1.1 This Explanatory Statement provides information to shareholders of OrotonGroup Limited (Subject to Deed of Company Arrangement) (**Oroton**) regarding the Deed of Company Arrangement proposed by Manderrah Pty Ltd (**Manderrah**) and entered into by the Deed Administrators, Oroton, OrotonGroup (Licence Company) Pty Ltd (Subject to Deed of Company Arrangement) and OrotonGroup (Australia) Pty Ltd (Subject to Deed of Company Arrangement) (together, the **Oroton Companies**) on 13 April 2018 (**DOCA**).

1.2 The completion of the DOCA is conditional on a number of conditions being satisfied. One condition which must be satisfied is that all of the issued shares in Oroton must be transferred to Manderrah, the Deed Proponent, or its nominee for nil consideration.

1.3 The Deed Administrators will seek leave from the Supreme Court of New South Wales under section 444GA of the *Corporations Act 2001* (Cth) (**Corporations Act**) to enable this transfer of shares to take place (**Section 444GA Application**).

1.4 The Section 444GA Application has been tentatively listed for a final hearing at the Supreme Court of New South Wales, commencing at 10am on 27 July 2018 for an estimate of one day.

1.5 The Section 444GA Application has been listed for a further directions hearing at 10am on 16 July 2018. At this directions hearing, further timetabling directions relating to the hearing of the Section 444GA Application will be made, including directions for the filing of any further evidence and the confirmation of the final hearing date.

1.6 If you wish to appear at the directions hearing to make submissions relating to the timetable to be set down by the Court and/or if you intend to oppose the Section 444GA Application at the final hearing, you must file with the Court, and serve on the Deed Administrators and ASIC, a notice of appearance in the prescribed Court form indicating your grounds of opposition by 4pm on 13 July 2018.

1.7 **It is important for shareholders (and their advisors and any other interested parties) to read this Explanatory Statement and accompanying Independent Expert's Report carefully and in their entirety before making a decision whether or not to take any action in respect of the Section 444GA Application. If you have any questions regarding the information in this document, you should consult your legal or other professional advisor.**

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2 Defined terms

2.1 Capitalised terms used in this Explanatory Statement have the meanings defined in the Glossary contained in section 13, unless the context otherwise requires or a term has been defined in the body of the Explanatory Statement.

3 Purpose of this Explanatory Statement

3.1 This document is an Explanatory Statement issued by Oroton in connection with the DOCA.

3.2 If the Court makes the Section 444GA Order and all related implementation steps under the DOCA are completed, all of your shares in Oroton will be transferred to Manderrah (or its nominee) for nil consideration in accordance with the terms of the DOCA. As a result, you will cease to own your shares in Oroton.

3.3 This Explanatory Statement provides information to you about:

(a) the Section 444GA Application to the Court for approval to transfer all of your shares in Oroton to Manderrah (or its nominee), as part of the DOCA approved at the concurrent second meeting of creditors of the Oroton Companies held on 29 March 2018 and executed on 13 April 2018;

(b) the steps which you need to take if you wish to oppose the Section 444GA Application, which has been tentatively listed for a final hearing at 10am on 27 July 2018 at the Supreme Court of New South Wales; and

(c) further information which may assist you to decide whether to take action in respect of the Section 444GA Application.

3.4 An Independent Expert's Report prepared by KPMG Corporate Finance, which contains a valuation of the Oroton shares, is enclosed with this Explanatory Statement. The Independent Expert's opinion is that Oroton's equity has nil value.

4 Administration of the Oroton Companies

4.1 On 30 November 2017, Vaughan Strawbridge and Glen Kanevsky were appointed as voluntary administrators of the Oroton Companies.

4.2 The Oroton Companies entered voluntary administration following a Strategic Review conducted by Moelis. Oroton engaged Moelis in May 2017 following a continued decline in earnings by the Oroton business. The objectives of the Strategic Review were to improve the overall performance of the business, maximise value and create options for the Oroton Group and its key stakeholders.

4.3 The Strategic Review resulted in the implementation of the following initiatives:

(a) termination of the Gap franchise agreement with Gap Inc.;

(b) agreed surrender of most of the Oroton Licence Co store leases;

(c) extension of the Finance Facilities with Westpac from 16 April 2018 to 5 October 2018; and

(d) seeking interested parties for the sale or recapitalisation of the business.

4.4 Having not received any formal offers to purchase or recapitalise the business, the Directors resolved to place the Oroton Companies into voluntary administration. In their Report to Creditors pursuant to section 75-225 of the Insolvency Practice Rules (Corporations) dated 21 March 2018, the Deed Administrators stated that they believe that the Oroton Companies were insolvent from 30 November 2017.

4.5 Immediately following their appointment, the Administrators conducted an independent and competitive process, assisted by Moelis, to sell and/or recapitalise the Oroton Companies (**Sale Campaign**).

4.6 Following the conclusion of the Sale Campaign, the Administrators identified Manderrah's proposal as the superior proposal of the seven bids received for the sale and/or recapitalisation of the Oroton Companies. Manderrah's proposal involved the recapitalisation of the Oroton business through the DOCA (**Manderrah Proposal**). Manderrah is a secured creditor of the Oroton Companies and is controlled by Mr James William Vicars, a major shareholder of Oroton through entities he controls.

5 What is the DOCA?

5.1 The DOCA is a statutory compromise of eligible claims of creditors of the Oroton Companies that arose on or before 30 November 2017, which forms part of the Manderrah Proposal.

5.2 On 29 March 2018, creditors of the Oroton Companies resolved to execute the DOCA. The DOCA was executed by all parties on 13 April 2018.

5.3 The object of the DOCA is to achieve a better return to creditors of the Oroton Companies than would exist in a winding up scenario, and to maximise the chances of the Oroton Companies, or as much as possible of their business, continuing in existence.

5.4 Under the DOCA, all shares in Oroton will be transferred by the Deed Administrators to Manderrah (or its nominee). Manderrah will then be required to pay $5.25 million to the Deed Administrators, which will form part of a Creditors' Trust Deed Fund (**Deed Fund**) (together with a specified amount of cash held by the Oroton Companies as set out in the DOCA). The Deed Fund will be available to pay the claims of eligible creditors of the Oroton Companies in accordance with the terms of the Creditors' Trust Deed.

5.5 The completion of the DOCA (including the transfer of shares to Manderrah or its nominee) is subject to the satisfaction of certain conditions, including:

(a) ASIC granting Oroton relief from the application of certain takeover provisions in Chapter 6 of the Corporations Act as necessary to permit the transfer of Shares to Manderrah (or its nominee);

(b) the ASX granting any waiver that Manderrah (or its nominee) and the Deed Administrators agree is required in connection with the transfer of Shares and the transactions contemplated by the DOCA;

(c) the Deed Administrators, Manderrah and each Deed Company executing and exchanging the Creditors' Trust Deed;

(d) the Court making the Section 444GA Order; and

(e) the Deed Administrators, each relevant Deed Company or its subsidiary that is party to a Continuing Lease, and each creditor that is party to a Continuing Lease, executing such documents as the Deed Proponent may require in order to give effect to the Continuing Lease Variations.

5.6 In the event the above conditions are not satisfied or waived on or prior to the Sunset Date (being 31 July 2018) (or such other date as agreed by the Deed Administrators and Manderrah), Manderrah will cease to be bound by the DOCA and the Deed Administrators will convene a meeting of creditors of the Oroton Companies to consider the future of the Oroton Companies. This will likely involve determining whether:

(a) the DOCA should be amended (assuming that Manderrah proposes amendments to the DOCA); or

(b) the Oroton Companies be wound up.

5.7 Upon effectuation of the DOCA:

(a) Claims of all eligible Creditors will be fully released and discharged, and converted to a right to prove under the Creditors' Trust Deed for the purpose of receiving a dividend from the Trust Fund in accordance with the terms of the Creditors' Trust Deed;

(b) Any claims you have against Oroton in your capacity as a shareholder will be fully released and discharged, unless your claim is an "Insured Claim" for the purposes of the DOCA (in which case, subject to the terms of the DOCA, it will not be released and extinguished by the DOCA to the extent of any insurance payment);

(c) You will not be entitled to receive a dividend from the Trust Fund in respect of any claims you may have against Oroton in your capacity as a shareholder;

(d) Your right to make claims against any third parties will remain unaffected.

6 The Section 444GA Application

6.1 The Court will only make the Section 444GA Order if it is satisfied that the transfer of Shares will not unfairly prejudice Shareholders.

6.2 Certain parties are permitted to oppose the Section 444GA Application. These parties are:

(a) a shareholder of Oroton;

(b) a creditor of Oroton;

(c) any other interested person; or

(d) ASIC.

7 No consideration payable for the transfer of Shares

7.1 You will not receive any consideration for the transfer of your shares in Oroton. If the Section 444GA Order is made, and related conditions under the DOCA are satisfied, all of your shares in Oroton will be transferred by the Deed Administrators to Manderrah (or its nominee) for nil consideration. You will cease to hold any shares in Oroton.

8 The Independent Expert's Report

8.1 The Deed Administrators engaged the Independent Expert, KPMG Corporate Finance, to provide a valuation of the Oroton shares. The Independent Expert's Report will be provided to the Court to assist with the determination of whether the proposed transfer of Shares will unfairly prejudice Shareholders. The Independent Expert's Report will also be provided to ASIC for the purpose of Manderrah's application for relief from the takeover provisions in Chapter 6 of the Corporations Act, referred to in paragraph 5.5(a) above.

8.2 A copy of the Independent Expert's Report is **enclosed** with this Explanatory Statement.

8.3 As set out in the Independent Expert's Report, the Independent Expert has concluded that the Shares have nil value.

9 What is the timetable for the Section 444GA Application?

9.1 The Section 444GA Application was filed in the Supreme Court of New South Wales on 26 June 2018.

9.2 An initial directions hearing was held on 2 July 2018. A further directions hearing will be held at 10am on 16 July 2018. At that directions hearing, it is expected that a further timetable will be made for the filing and service of evidence (including by any shareholder who has filed a notice of appearance seeking to oppose the order) and the Court will confirm the final hearing date. The Deed Administrators will release ASX Announcements setting out the orders made by the Court at any future directions hearings.

9.3 The tentative final hearing date is 10am on 27 July 2018. The final hearing date will likely be confirmed at the further directions hearing on 16 July 2018.

9.4 An indicative timetable for the progress of the Section 444GA Application is provided below. The dates referred to in the below table are indicative only and subject to change. Ultimately, the timetabling of the Section 444GA Application is at the discretion of the Court. Any changes to the timetable will be communicated to the market via the ASX website under issuer code "ORL", and copies of any orders made by the Court will be posted on the Oroton website and at the Deloitte Web-Link.

9.5 Unless otherwise stated, all times referred to in this Explanatory Statement refer to local time in Sydney (Australian Eastern Standard Time).

Key dates for Shareholders

Event	**Date**
The Deed Administrators' further evidence to be filed with the Court and served on ASIC	By 4pm on 6 July 2018
Notice of appearance of any Shareholder seeking to appear at the hearing of the Section 444GA Application to be filed with the Court and served on the Deed Administrators and ASIC	By 4pm on 13 July 2018
Further directions hearing regarding the Section 444GA Application	10am on 16 July 2018
Tentative final hearing date for the Section 444GA Application	10am on 27 July 2018

10 How you can participate in the hearing of the Section 444GA Application

10.1 As a Shareholder, you are entitled to oppose the Section 444GA Application.

10.2 You may appear in Court to make submissions and/or oppose the Section 444GA Application by filing with the Court, and serving on the Deed Administrators and ASIC, a notice of appearance and supporting affidavit setting out your grounds of opposition by 4pm on 13 July 2018.

10.3 The Deed Administrators' solicitors, Genevieve Sexton and Elyse Hilton of Arnold Bloch Leibler, will accept service of a notice of appearance and supporting affidavit at the following addresses:

- by post: C/- Arnold Bloch Leibler, Level 24, Chifley Tower, 2 Chifley Square, Sydney NSW 2000 (Attention: Genevieve Sexton and Elyse Hilton); or
- by email: gsexton@abl.com.au and ehilton@abl.com.au.

10.4 You should seek independent legal, financial, taxation or other professional advice before deciding whether to take any action in relation to the Section 444GA Application.

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11 Further information to assist you

In addition to this Explanatory Statement and the enclosed Independent Expert's Report, and to assist you with determining whether to take action in respect of the Section 444GA Application:

11.1 Copies of the Originating Process filed by the Deed Administrators in relation to the Section 444GA Application, the orders made at the first directions hearing on 2 July 2018, and the Report to Creditors are available on the:

(i) Oroton website (https://www.orotongroup.com.au); and

(ii) Deloitte Web-Link (https://www2.deloitte.com/au/en/pages/finance/articles/orotongroup.html).

11.2 You may also request copies of these documents from us and we can email them to you free of charge. To request copies, please contact Lauren Webb of Deloitte by phoning (02) 8260 6702 or emailing orotongroup@deloitte.com.au.

12 Signature of Oroton

This Explanatory Statement has been signed by Oroton.

Vaughan Strawbridge

in his capacity as joint and several deed administrator of OrotonGroup Limited (Subject to Deed of Company Arrangement)

Deloitte.

13 Glossary

Term	Definition
Administrators	Vaughan Strawbridge and Glen Kanevsky of Deloitte, appointed as joint and several administrators of the Oroton Companies on 30 November 2017
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASX Announcement	A company announcement released for Oroton under the "ORL" issuer code on the ASX website
Continuing Lease	Means each lease and licence to occupy specified in Schedule 2 of the DOCA, and each other lease and licence to occupy which is agreed to be a Continuing Lease by the Deed Administrators and Manderrah
Continuing Lease Variation	Means each proposed variation or amendment to a Continuing Lease which the Deed Administrators and Manderrah agree is to be a Continuing Lease Variation for the purposes of the DOCA
Corporations Act	*Corporations Act 2001* (Cth)
Court	Supreme Court of New South Wales
Creditors' Trust	The trust to be established by the ORL Creditors' Trust Deed
Creditors' Trust Deed	The ORL Creditors' Trust Deed
Deed Administrators	Vaughan Strawbridge and Glen Kanevsky of Deloitte Restructuring Services, appointed as joint and several deed administrators of the Oroton Companies from 29 March 2018
Deed Company	Refers to each of OrotonGroup Limited ACN 000 038 675 (subject to deed of company arrangement), OrotonGroup (Australia) Pty Limited ACN 000 704 129 (subject to deed of company arrangement) and OrotonGroup (Licence Company) Pty Ltd ACN 166 068 695 (subject to deed of company arrangement)
Deloitte	Deloitte Financial Advisory Pty Ltd
Deloitte Web-Link	https:www2.deloitte.com/au/en/pages/finance/articles/orotongroup.html
Directors	John Peter Schmoll, Maria Anne Martin and Ross Boyd Lane
DOCA	The deed of company arrangement executed by the Oroton Companies, the Deed Administrators and Manderrah on 13 April 2018
Finance Facilities	The secured facilities made available by Westpac Banking Corporation, the financier of the Oroton Companies
Group	The entities within the consolidated Oroton group, being OrotonGroup Limited, OrotonGroup (Australia) Pty Limited, OrotonGroup (Number One) Pty Limited, OrotonGroup (New Zealand) Pty Limited, Oroton Share Plan Company Pty Limited, OrotonGroup (International) Pty Limited, OrotonGroup (Malaysia) Sdn Bhd, OrotonGroup (Singapore) Pte Ltd, OrotonGroup (Hong Kong) Ltd, Oroton (Shanghai) Trading Co., Ltd and OrotonGroup (Licence Company) Pty Limited

Term	Definition
Independent Expert	KPMG Corporate Finance
Independent Expert's Report	The report prepared by KPMG Corporate Finance and enclosed with this Explanatory Statement
Manderrah	Manderrah Pty Ltd as trustee for the GJJ Family Trust
Moelis	Moelis Australia Advisory Pty Limited
Originating Process	The originating process for the Section 444GA Application, filed by the Deed Administrators on 26 June 2018
Oroton	OrotonGroup Limited ACN 000 038 675 (subject to deed of company arrangement)
Oroton Companies	Refers to OrotonGroup Limited ACN 000 038 675 (subject to deed of company arrangement), OrotonGroup (Australia) Pty Limited ACN 000 704 129 (subject to deed of company arrangement) and OrotonGroup (Licence Company) Pty Ltd ACN 166 068 695 (subject to deed of company arrangement)
Oroton Licence Co	OrotonGroup (Licence Company) Pty Ltd ACN 166 068 695 (subject to deed of company arrangement)
Report to Creditors	The report to creditors of the Oroton Companies pursuant to section 75-225 of the Insolvency Practice Rules (Corporations), dated 21 March 2018
Section 444GA Application	An application to the Court under section 444GA of the Corporations Act for leave to be granted to the Deed Administrators to transfer all of the shares in Oroton to Manderrah or its nominee
Section 444GA Order	An order of the Court granting the leave sought in the Section 444GA Application
Shares	Ordinary shares in the capital of Oroton
Shareholders	Holders of Shares as at the date of this Explanatory Statement
Strategic Review	A strategic review process undertaken by Moelis Australia Advisory Pty Limited pursuant to its engagement by Oroton in May 2017
Sunset Date	31 July 2018 (as amended by agreement on 28 May 2018 between the Deed Administrators and Manderrah, having originally been a sunset date of 30 May 2018 as set out in the DOCA)
Trust Fund	Means the trust fund contemplated by the DOCA and established under the ORL Creditors' Trust Deed
Trustees	Means, jointly and severally, Vaughan Strawbridge and Glen Kanevsky, in their capacities as trustees of the Creditors' Trust and any successor to that office appointed pursuant to the *Trustee Act 1925* (NSW)

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5 July 2018

Dear Deed Administrators

Independent Expert's Report and Financial Services Guide

PART ONE – INDEPENDENT EXPERT'S REPORT

1 Introduction

On 30 November 2017, the Directors of OrotonGroup Limited (Subject to Deed of Company Arrangement) (OrotonGroup) appointed Mr Vaughan Strawbridge and Mr Glen Kanevsky of Deloitte Restructuring Services (Deloitte) as joint and several administrators (Administrators or Deed Administrators) of OrotonGroup, OrotonGroup (Australia) Pty Limited and OrotonGroup (Licence Company) Pty Ltd (together, Oroton Companies) pursuant to Section 436A of the Corporations Act 2001 (Act).

On 27 December 2017, the Deed Administrators announced that after market close on 23 December 2017, OrotonGroup had entered into a binding Implementation Deed with Manderrah Pty Ltd (Manderrah), an entity controlled by Mr. James Vicars, a former Director of OrotonGroup, to acquire the shares of OrotonGroup (the Manderrah Proposal). Manderrah is a secured creditor and Shareholder. Mr Vicars and controlled entities[1] (Vicars Entities) hold an 18.18% interest in OrotonGroup. The Manderrah Proposal was to be effected by way of a Deed of Company Arrangement (DOCA) that was approved by creditors on 29 March 2018.[2]

Under the DOCA, all shares in OrotonGroup will be transferred to Manderrah[3] in exchange for Manderrah paying $5.25 million (Top-up Cash Amount) into a Creditors' Trust[4] Account to be

[1] Entities controlled by Mr James Vicars include Manderrah, CJH Holdings Pty Ltd, Velcara Pty Ltd and JW Investments Pty Ltd.

[2] The DOCA was executed on 13 April 2018.

[3] Or an entity owned by Manderrah.

[4] Trust established by the OrotonGroup Creditors' Trust Deed

available (along with the Oroton Companies' Available Cash[5] and Excess Cash[6] as at 24 February 2018) to pay the claims of creditors of Oroton Companies (other than Vicars Entities) and costs associated with the voluntary administration and DOCA. It is expected that all priority and secured creditor claims will be paid and only a portion of unsecured creditors' claims will be paid. OrotonGroup shareholders (Shareholders) will receive nil consideration.

Upon the appointment of the Administrators, Westpac assigned to Manderrah all amounts owing to Westpac under the working capital facility and the security given in respect of the facility. As at 24 February 2018, the balance of the working capital facility (net of cash swept) was $12 million.

The Manderrah Proposal is conditional upon:

a) the Australian Securities & Investments Commission (ASIC) granting such exemptions or modifications from the takeover provisions under Chapter 6 of the Act pursuant to Section 655A of the Act as are necessary to permit the transfer of all the shares in OrotonGroup to Manderrah
b) Australian Stock Exchange Limited (ASX Limited) granting required waivers
c) the Creditors' Trust Deed is being executed and exchanged
d) the Supreme Court of New South Wales (Court) making an order under Section 444GA(1) of the Act granting the Deed Administrators of the DOCA leave to transfer all of the shares in OrotonGroup to Manderrah for nil consideration, and
e) continuing Lease Variations coming into effect.

Arnold Bloch Leibler (ABL), the legal adviser to the Deed Administrators, has engaged KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to provide an independent expert's report (IER) in relation to the valuation of the equity in OrotonGroup for the purpose of assisting the Court and ASIC in their determinations.

Accordingly, this report sets out the opinion of KPMG Corporate Finance as to the value of OrotonGroup's equity. The valuation date (Valuation Date) is 24 February 2018 since this is the date of the assessment of cash to be paid into the Creditors Trust, which is available to creditors and costs associated with the voluntary administration and DOCA. However, in order to fairly assess whether Shareholders are materially prejudiced we have used the most recent available financial and other information in relation to the business.

Further information regarding KPMG Corporate Finance, as it pertains to the preparation of this report, is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

OrotonGroup is predominantly a retailer of 'affordable luxury', Oroton branded leather goods and related accessories through its 'bricks and mortar' stores in Australia, New Zealand and

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[5] The cash which, as at 24 February 2018, stood to the credit of the Oroton Companies (including in the Deed Administrators' Accounts and otherwise) and adjusted at Completion in accordance with the terms of the DOCA. Excludes cash in entities which comprise OrotonGroup's international operations.

[6] An amount equal to 50% of the amount by which the Available Cash exceeds $5.5 million, provided that the Excess Cash amount shall not exceed (and shall be capped at) $1.25 million.

Malaysia, and worldwide via its online store. Until recently, it also owned the exclusive licence for the Gap brand in Australia and New Zealand. OrotonGroup is listed on the Australian Stock Exchange (ASX) and as at 27 November 2017, the last trading day prior to the announcement of the appointment of the Administrators, it had a market capitalisation of $18.3 million.[7]

The Manderrah Proposal is the result of an extensive, independent and competitive process undertaken by the Administrators, and by OrotonGroup prior to administration, in each case assisted by Moelis Australia Advisory Pty Limited (Moelis), to identify a suitable party to purchase or recapitalise OrotonGroup.

2 Scope of Report

ABL has engaged KPMG Corporate Finance to provide an IER in relation to the valuation of the equity in OrotonGroup. We understand that this report will be used:

- for the purpose of assisting the Court in determining whether the proposed transfer of shares to Manderrah will unfairly prejudice Shareholders for the purpose of the Section 444GA(1) application, and
- for the purpose of Manderrah's application to ASIC for technical relief from the takeover provisions of the Act, and
- to be provided in an Explanatory Statement to be sent to Shareholders prior to the Court hearing of the Section 444GA application so as to provide them with the value of OrotonGroup's equity.

Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 5 of this report.

3 Summary of opinion

KPMG Corporate Finance has assessed the value of OrotonGroup's equity on the following bases:

- a going concern basis, which assumes that OrotonGroup will continue its operations for the foreseeable future and will be able to realise its assets and discharge its post administration liabilities in the normal course of business, and
- a distressed basis, which reflects the situation faced by OrotonGroup whereby it does not have sufficient funding to pursue its operations for the foreseeable future.

Under each basis, we consider that OrotonGroup's equity has nil value.

It is important to recognise that the going concern valuation assumes OrotonGroup's current financial difficulties do not exist and sufficient funding is available to pursue its operations. In our opinion, these assumptions are inappropriate and as such, a valuation on this basis overstates the realisable value of OrotonGroup's operating business and/or assets in the absence of the DOCA. The going concern valuation has been prepared on this basis in accordance with the requirements of ASIC, as discussed in Section 5.1 of this report. The more relevant assessment of value for the purpose of assisting the Court in determining whether the proposed transfer of shares to Manderrah will unfairly prejudice Shareholders, and assisting ASIC in its decision as

[7] Based on a closing price of $0.435 on 27 November 2017 and 41,975,077 ORT shares outstanding.

to the granting of technical relief from the takeover provisions under the Act, is our distressed valuation.

3.1 Going concern valuation

KPMG Corporate Finance has assessed the value of OrotonGroup's equity on a going concern basis to have nil value.

The value of OrotonGroup's equity has been determined as follows:

- assessing the value of 100% of OrotonGroup's operating business on a 'going concern'[8], control basis
- deducting secured creditors (net) as at 24 February 2018 and the full amount of the Deed Administrators' assessment of priority creditors (employees) and landlord and other unsecured creditors of the Oroton Companies (together, Creditors)[9]
- adding cash as at 24 February 2018 (after deducting the costs of the voluntary administration and DOCA), and
- adding KPMG Corporate Finance's assessment of non-operating assets (net).

When assessing the value of 100% of OrotonGroup's operating business, we have considered those synergies and benefits that would generally be available to a pool of potential purchasers. We have not included any 'special value', or the value of synergies specific to a particular acquirer (refer to Section 8.2.3 of the report).

The primary methodology adopted in the valuation of OrotonGroup's operating business is a discounted cash flow (DCF) analysis. The value derived from the DCF analysis has been cross-checked using multiples of EBITDA and EBIT for transactions involving retailers of clothing, footwear and accessories as well as comparable listed companies within the industry. The valuation of OrotonGroup's operating business is set out in Section 8.3 of this report.

In determining Creditors, we have adopted the Deed Administrators' assessment of claims, which were determined for the purposes of the second creditors' meeting, as these represent the best guide as to OrotonGroup's liabilities as a consequence of the administration. To the extent that actual claims are determined to be either higher or lower than the assessed claims, then the implied value of equity would be either lower or higher.

KPMG Corporate Finance has assessed the value of 100% of OrotonGroup's operating business on a going concern basis to be in the range of $15 million to $17 million. After deducting the full amount of the Creditors and adding cash as at 24 February 2018 (net of costs of the voluntary administration and the DOCA) and non-operating assets (net), the implied value of equity is negative (($9.1) million to ($2.2) million) as set out in the following table.

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[8] Refer to Section 5.2 of this report for a definition of 'going concern'.

[9] In treating creditors in this way, we have not deducted creditors that are paid within the FY18 and FY19 Forecasts.

Table 1: OrotonGroup summary of value – going concern basis

	Section reference	Valuation range Low	High
Value of 100% of OrotonGroup's operating business	**8.3**	**15.0**	**17.0**
Non operating assets/(liabilities) (net)	8.4	0.9	0.9
Enterprise value		**15.9**	**17.9**
Creditors:			
Priority creditors (employees)	8.5	(1.4)	(1.4)
Net secured creditors	8.5	(17.5)	(17.5)
Landlords	8.5	(12.3)	(8.4)
Other unsecured creditors	8.5	(4.0)	(3.0)
Total Creditors		**(35.3)**	**(30.4)**
Cash:			
Cash	7.8	15.8	15.8
Less: costs of the administrations	7.8	(5.5)	(5.5)
Implied value of 100% of the equity of OrotonGroup		**(9.1)**	**(2.2)**
Assessed value of 100% of the equity of OrotonGroup		**nil**	**nil**

Source: KPMG Corporate Finance analysis.

Based on our analysis in Table 1, OrotonGroup's operating business would need to have a value of at least $19.2 million in order for equity to have a positive value after taking into account the full amount of the Creditors, net of Excess Cash, cash in international operations and non-operating assets (net).

In forming our opinion as to the value of OrotonGroup's operating business it is important to recognise that it operates in a challenging retail environment (refer to Section 6 of this report). The retail category on which the Oroton brand is mainly focused (i.e. handbags, wallets and pouches) has attracted a large number of domestic and international market participants in direct competition with OrotonGroup, including Coach, Furla, Marc Jacobs, Kate Spade and Michael Kors. These competitors frequently offer substantial discounts in order to gain market share, which places pressure on Oroton brand sales and gross margins. Furthermore, whilst historically these competitors have focused on first retail and concession stores, within the last two to three years they have moved into factory outlets (where OrotonGroup derives a majority of earnings).

These competitors have a number of advantages in that they are able to leverage their international platforms (e.g. information technology (IT) systems and international marketing) to improve brand presence and sales with minimal incremental investment. Their larger production runs enable them to take advantage of volume discounts offered by suppliers and take priority with manufacturers, reducing lead times. OrotonGroup's smaller production runs result in a longer production lead time and reduce its ability to take advantage of volume discounts with manufacturers. It is within this environment that there has been a 2.8% decline in 'like-for-like' (LFL) [10] Oroton brand sales over the past three years and seven months (refer to Section 7.2.5 of this report).

OrotonGroup's brand repositioning strategy has resulted in gross margin improvement for the Oroton brand (from 51.9% in FY14 to 53.7% in FY17), however, the depreciation of the

[10] 'LFL' sales excludes discontinued categories in FY17 and adjusts for differences in the number of weeks per FY and store openings and closures

Australian dollar over this period has more than offset this margin improvement, resulting in a decline in Oroton brand net margin from 62.3% in FY14 to 57.6% in FY17. Although hedging has delayed the impact of adverse foreign exchange movements, further declines are anticipated for FY18 as hedges are mostly out-of-the money.

Compounding revenue and net margin declines is that a substantial share of OrotonGroup's costs are fixed (or subject to fixed price increases), including store rents (which increase by the Consumer Price Index (CPI) plus a margin in accordance with long term rental agreements) and sales staff salaries (which are set by the Modern Award). This combination of a decline in Oroton brand sales and net margin while fixed costs have remained relatively stable has resulted in significant margin pressure (refer to Sections 7.4 and 7.5 of this report).

Offsetting this is that as part of the DOCA, Manderrah has been able to negotiate rent savings which, for the purposes of our valuation, we have assumed would be available to other purchasers. Further, as part of the Strategic Review, a range of potential operational efficiencies and structural changes were identified across the head office and Oroton brand as part of a wider review and as a result of the Gap franchise closure. However, additional costs are anticipated, including an investment of around $3 million in FY18 and FY19 in relation to the Oroton brand strategy, digital transformation and IT roadmap.

Taking into account these different factors, KPMG Corporate Finance has developed a range of scenarios for OrotonGroup in our DCF analysis in order to assess a value of the OrotonGroup. The selected value range overlaps with the Base Case scenario. The Base Case scenario assumes that:

- Oroton brand LFL sales continue to decline in FY18 (noting that FY18 includes 9 months of actual results), then increase for all distribution categories (other than online[11]) in FY19, before increasing by 3.0% (which is above the industry forecast of 2.2%) as market share is stabilised
- gross margin (constant currency basis) increases from 53.7% in FY17 to 56.7% in FY19 and is maintained in subsequent years (despite the reduced investment in brand from FY20 and a highly competitive industry)
- there are no changes to exchange rate forecasts (positive or negative)
- OrotonGroup is able to optimise its working capital needs
- OrotonGroup achieves a range of potential operational efficiencies and structural changes across the head office and Oroton brand
- a typical acquirer is able to negotiate the same or similar rent savings to those negotiated by Manderrah, and
- an acquirer would attribute some value to Australian tax losses.[12]

Notwithstanding that we consider this to be our Base Case, it should be recognised that there is substantial risk to a number of these assumptions, particularly around sales and gross margin

[11] Online sales were unusually high following the announcement of the voluntary administration. Management has normalised FY19 online sales.

[12] KPMG Corporate Finance has assumed that an acquirer would risk adjust tax losses by between 40% of 60% of the balance.

given the competitive environment and net margin as a result of potential movements in exchange rates.

3.2 Distressed valuation

KPMG Corporate Finance has also considered the value of OrotonGroup's equity on a distressed basis, which takes into account the situation faced by OrotonGroup whereby it does not have sufficient funding to pursue its operations for the foreseeable future. In considering a distressed value we have considered the following approaches:

- distressed sale basis, and
- liquidation basis.

The distressed sale basis assumes that the business will be sold as a going concern, and exceeds the value of the assets that comprise the businesses on a liquidation basis (as assessed by the Deed Administrators), noting however, that the seller would likely be considered in such a situation to be an 'anxious' seller within the context of the definition of fair value (refer to Section 5.2 and Section 8.2.1 of this report).

In contrast, a liquidation basis assumes the operations of OrotonGroup will cease to exist and its assets will be liquidated to pay outstanding creditor balances and other liabilities. OrotonGroup does not have significant tangible assets for which material value could be realised (refer to Section 7.8 of this report). OrotonGroup is likely to only recover a portion of the book value of its inventory in a liquidation scenario and would likely realise relatively limited value for its store assets or other tangible assets. In addition, in their Report to Creditors, the Deed Administrators have assessed priority and landlord creditors to be higher on a liquidation basis than under the DOCA (which reflects a distressed sale basis).

For that reason, we have assumed that the more realistic scenario would be a distressed sale (which assumes that secured creditors would fund ongoing trading to the extent necessary to effect the sale on a going concern basis) rather than a 'break up' sale.

On a distressed sale basis, we have considered an increase in the discount rate to take into account the existing distressed situation whereby a potential acquirer would seek a higher rate of return to reflect the increased risk. In this situation, it is likely that debt and equity holders would require a higher cost of capital (at least 5% to 10% higher) than would be required on a going concern basis. KPMG Corporate Finance has discounted the cash flows in the Base Case using a WACC in the range of 16% to 22% (refer to the table below). This results in a reduction in the value of the operating business. Accordingly, on a distressed sale basis, the assessed value of OrotonGroup's equity is nil (refer to Section 8.6 of this report).

Table 2: OrotonGroup summary of value - distressed sale basis

	Section reference	Valuation range Low	High
Value of 100% of OrotonGroup's operating business		**7.0**	**10.0**
Non operating assets/(liabilities) (net)	8.4	0.9	0.9
Enterprise value		**7.9**	**10.9**
Creditors:			
Priority creditors (employees)	8.5	(1.4)	(1.4)
Net secured creditors	8.5	(17.5)	(17.5)
Landlords	8.5	(12.3)	(8.4)
Other unsecured creditors	8.5	(4.0)	(3.0)
Total Creditors		**(35.3)**	**(30.4)**
Cash:			
Cash	7.8	15.8	15.8
Less: costs of the administrations	7.8	(5.5)	(5.5)
Implied value of 100% of the equity of OrotonGroup		**(17.1)**	**(9.2)**
Assessed value of 100% of the equity of OrotonGroup		**nil**	**nil**

Source: KPMG Corporate Finance analysis.

Other matters

Our report has been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared predominantly for the purpose of assisting the Court regarding the application under Section 444GA(1) of the Act proposed by the Deed Administrators of OrotonGroup on whether or not the proposed share transfer will unfairly prejudice Shareholders and for the purpose of applying to ASIC for technical relief from the takeover provisions of the Act. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated. References to a financial year (which for OrotonGroup is the 12 months to the last Saturday in July) have been abbreviated to FY and reference to half year have been abbreviated to HY.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Explanatory Statement to be sent to Shareholders in relation to the DOCA proposed by Manderrah and entered into by OrotonGroup and its Subsidiaries and documents provided the Court and ASIC, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Explanatory Statement.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 5.3 of our report.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Ian Jedlin
Authorised Representative

Joanne Lupton
Authorised Representative

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4 The Manderrah Proposal

4.1 Background

The Manderrah Proposal is the result of an extensive, independent and competitive process undertaken by the Administrators, and by OrotonGroup prior to administration, in each case assisted by Moelis, to identify a suitable party to purchase, recapitalise or refinance OrotonGroup.

The Ralph Lauren licence agreement expired on 30 June 2013 and OrotonGroup received proceeds of $12.8 million predominantly in respect of store assets and inventory. This cash, and positive operating cash flows generated in FY13 resulted in OrotonGroup having an opening cash balance of $23.0 million by the end of FY13. This cash was used to grow its brand portfolio and store footprint and pay dividends.

OrotonGroup entered into a joint venture[13] with Brooks Brothers International, LLC (Brooks Brothers Joint Venture) in August 2013 and a licencing agreement with Gap, Inc. in October 2013 and expanded the Oroton brand overseas. Each of these initiatives required a significant investment in capital and inventory, was substantially loss making and ultimately resulted in an increase in borrowings.

In order to support growth and manage seasonal working capital requirements, OrotonGroup entered into secured $40 million facilities agreement (including an $18 million working capital advance facility, $8 million bank overdraft and $14 million trade facility) (the Facility) with Westpac Banking Corporation (Westpac) in March 2015. Subsequently, the working capital facility was increased to $20 million, the bank overdraft was reduced to $4 million and the trade finance facilities were reduced to $11 million. The Facility was due to expire in April 2018.

Despite progress towards repositioning the Oroton brand (which commenced in FY15), exiting the Brooks Brothers Joint Venture and rationalising loss making international stores, sales of the Oroton and Gap branded products declined in FY17 as industry conditions in Australia deteriorated and, combined with fixed increases in lease and labour costs, resulted in a decline in profitability and cash flows that were insufficient to support borrowings. OrotonGroup's efforts towards improving performance are described in the remainder of Section 4 below. The challenging industry conditions are described in more detail in Section 6 of this report and the financial performance of OrotonGroup is set out in Sections 7.4 to 7.7 of this report.

4.2 Strategic Review

Following soft trading in the mid-season sale period in April 2017 and the continuing decline in earnings, on 17 May 2017, OrotonGroup posted an earnings downgrade and announced the appointment of Moelis to assist in conducting a Strategic Review focused on improving its overall business performance, maximising value and creating options for the company and its stakeholders.

The Strategic Review resulted in the following key initiatives:[14]

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[13] Legal entity name of the joint venture is Brooks Brothers Australia Pty Limited

[14] Source: Deloitte Report to creditors pursuant to Section 75-225 of the Insolvency Practice Rules (Corporations), 21 March 2018 (Report to Creditors), p.26

- termination of the Gap franchise agreement and agreed surrender of most of the Gap store leases
- optimising Oroton store portfolio
- identifying operational efficiencies, and
- renegotiation and extension of the Facility.

4.2.1 Termination of Gap licence

On 4 August 2017, OrotonGroup announced that it had entered into a binding agreement with Gap, Inc. to discontinue the Gap franchise business in Australia, with closure of the six stores targeted for completion by 31 January 2018. The surrender of leases resulted in significant lease surrender fees.

4.2.2 Optimise Oroton store portfolio

OrotonGroup sought to reduce the footprint per store (i.e. increase sales per square metre), improve productivity and reduce costs through rationalisation of the Oroton store portfolio. It identified a number of marginal or unprofitable stores for closure.

4.2.3 Identifying operational efficiencies

In October 2017, a range of potential operational efficiencies and structural changes were identified across the head office and Oroton brand as part of a wider review and as a result of the Gap franchise closure. Although identified, no detailed plan had been put in place at that time to achieve these savings as the Gap franchise was not due to be exited until January 2018. Relocation of the distribution centre from Hong Kong to Sydney was also expected to result in cost savings. In addition, $0.8 million of costs related to being publicly listed were identified within the business.

4.2.4 Renegotiation and extension of the Facility

From May 2017, Moelis sought interest from a select group of specialist financiers regarding alternative debt funding options for OrotonGroup. In total, 13 potential alternative funders were contacted with three indicative proposals received from specialist inventory based lenders. However, a funding requirement in August 2017 for ongoing trading and the high cost of refinance offered by the three alternative lenders meant that the only viable source of funding was likely to be from Westpac (with additional support).

OrotonGroup approached its numerous substantial Shareholders requesting financial assistance and were able to garner support from Vicars Entities. Manderrah entered into a backstop arrangement with Westpac, which comprised:

- a put option which allowed Westpac to transfer the $20 million working capital facility to Manderrah at face value if an event of default occurred on or before 16 April 2018 (effectively de-risking Westpac with regard to the $20 million facility up until this date) (Put Option), and
- a call option allowing Manderrah to purchase the Facility at face value up to one month after 16 April 2018 (Call Option).

The backstop arrangement enabled OrotonGroup to secure amendments to the Facility (effective 31 July 2017) as follows:

- changes in covenants to allow for the continuing use of its existing $35 million Facility, and
- an extension of maturity of the $31 million working capital and trade finance facilities from 16 April 2018 to 5 October 2018. The $4 million bank overdraft facility continued to be repayable and terminable on demand.

As part of the amendments to the Facility, OrotonGroup agreed to pay an amendment fee of $1.5 million to Westpac with Westpac paying an equivalent fee to the Vicars Entities.

Upon the appointment of the Administrators, Westpac assigned to Manderrah all amounts owing to Westpac under the working capital facility and the security given in respect of the facility.[15] Westpac remains the lender of the remainder of the Facility.

The extension of the Facility provided OrotonGroup with the time and financial flexibility to work through the closure of the Gap stores, further focus resources on the strategy of the core Oroton brand and pursue a long-term funding solution.

4.3 Strategic Process

Subsequently, in June 2017, the Board instructed Moelis to commence a formal process to explore certain strategic options which included a potential sale, refinancing of debt or recapitalisation of OrotonGroup (Strategic Process). Each of these options was explored in parallel.

As part of the sale process, Moelis contacted more than 25 parties, of which 13 undertook due diligence. Following this process, only one party remained, however, they indicated it would not be in a position to put forward a formal proposal until after a shareholder meeting to be held on 29 November 2017.

As part of the refinancing process, Moelis soft sounded potential equity investors. It was considered that any equity raising would need to be relatively large in order to recapitalise the company with a sustainable level of debt (noting that retailers cannot generally support high financial leverage).

Despite these efforts, by 30 November 2017, it was apparent that: [16]

- no formal offer to purchase the businesses had been received
- the Facility was due to mature on 5 October 2018, and no further extensions of the Facility had been granted and there was no alternative financial support available beyond 5 October 2018
- no Shareholders made any commitment to provide credit support and only a handful of Shareholders provided indicative commitments for an equity raising, and they were vastly inadequate for OrotonGroup's cash flow requirements, and
- significant inventory orders would have been required in February 2018, and the company would likely be faced with resistance from Westpac to allow the draw down when debts became due, given that the Strategic Process had failed and equity raising options were inadequate.

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[15] Source: Notices of Assignment provided under Section 12 of the Conveyancing Act (NSW) to the Oroton Companies dated 4 December 2017 (debt and facility) and 8 December 2017 (security).

[16] Source: Report to Creditors, p.49

4.4 Appointment of Administrators

On 28 November 2017, OrotonGroup requested that the company be placed in a trading halt and on 30 November 2017, noting the failure of the Strategic Process to secure a viable option for OrotonGroup, the Directors of OrotonGroup appointed Mr Vaughan Strawbridge and Mr Glen Kanevsky of Deloitte as joint and several Administrators of the Oroton Companies pursuant to Section 436A of the Act.

Following their appointment, the Administrators:

- oversaw the orderly wind-down of the Gap branded stores, which was finalised by 11 January 2018
- closed three underperforming Oroton first retail stores and one Oroton pop-up concession store, and
- sought expressions of interest for the sale and/or recapitalisation of the business.

4.4.1 Sale process post administration

The Administrators advertised the business for sale in the Australian Financial Review on 7 December 2017. Interested parties were requested to submit non-binding indicative offers by 20 December 2017, including the value they would pay for acquiring 100% of OrotonGroup on a debt free and cash free basis, as well as further details on the proposed structure, the source and use of funds, any conditions, key assumptions, due diligence requirements and any approvals required. Interested parties in the sales process included:

- 39 parties, both from the previous Strategic Process undertaken by Moelis and the advertisement, were contacted including private equity firms, strategic parties and individual investors
- 23 parties signed a non-disclosure agreement and were provided with access to an electronic dataroom, and
- seven non-binding indicative offers were received.

4.5 Manderrah Proposal

On 27 December 2017, the Administrators announced that after market close on 23 December 2017, OrotonGroup had entered into a binding Implementation Deed with a Manderrah to acquire the shares of OrotonGroup (the Manderrah Proposal). The Manderrah Proposal is to be effected by way of a DOCA that was approved by creditors on 29 March 2018.[17]

Under the DOCA, all shares in OrotonGroup will be transferred to Manderrah in exchange for Manderrah paying a Top-up Cash Amount of $5.25 million into a Creditors' Trust Account to be available (along with the Oroton Companies' Available Cash and Excess Cash as at 24 February 2018) to pay the claims of creditors of the Oroton Companies (other than Vicars Entities) and costs associated with the voluntary administration and DOCA. Shareholders are to receive nil consideration.

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[17] The DOCA was executed on 13 April 2017

The Manderrah Proposal is dependent on the following conditions being fulfilled prior to the Sunset Date[18]:

a) ASIC granting such exemptions or modifications from the takeover provisions under Chapter 6 of the Act pursuant to Section 655A of the Act as are necessary to permit the transfer of the shares in OrotonGroup to Manderrah

b) ASX Limited granting required waivers

c) the Creditors' Trust Deed being executed and exchanged

d) the Court making an order under Section 444GA(1) of the Act granting the Deed Administrators of the DOCA leave to transfer all of the shares in OrotonGroup to Manderrah for nil consideration, and

e) Continuing Lease Variations[19] coming into effect.

Conditions a) through d) may only be waived with written consent of each of the parties to the DOCA[20]. Condition e) may only be waived by Manderrah.

If by the Sunset Date each of the conditions precedent is not satisfied or waived by all parties, Manderrah will cease to be bound by the Deed and the Deed Administrators will convene a meeting of creditors to determine the future of OrotonGroup and each of its Subsidiaries.

The Implementation Deed contains certain exclusivity provisions that apply until Completion Date[21] (unless terminated earlier) including that OrotonGroup and the Deed Administrators undertake the following:

- cease discussions with any person other than Manderrah ('cease discussions')
- not solicit an alternative proposal ('no shop'), and
- not enter into or participate in negotiations with any person in relation to competing proposal ('no talk').

The requirement to 'cease discussions' and 'no talk' provisions are subject to fiduciary carve-outs.

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[18] This date has been extended from 30 May 2018 to 31 July 2018

[19] Refers to each proposed variation or amendment to a Continuing Lease which the Deed Administrators and Manderrah agree to be a "Continuing Lease Variation" for the purpose" of the DOCA

[20] Each of the OrotonGroup entities, the Deed Administrator and Manderrah.

[21] Date of completion of the transfer of all OrotonGroup shares to Manderrah (or a nominee) as contemplated by the Manderrah Proposal

5 Scope of the report

5.1 Purpose

ABL, on behalf of the Deed Administrators, has engaged KPMG Corporate Finance to prepare an IER in relation to the valuation of the equity in OrotonGroup. We understand that this report will be used:

- for the purpose of assisting the Court in determining whether the proposed transfer of shares to Manderrah will unfairly prejudice Shareholders for the purpose of the 444GA(1) application
- for the purpose of applying to ASIC for technical relief from the takeover provisions of the Act, and
- to be provided in an Explanatory Statement to be sent to Shareholders prior to the Court hearing of the Section 444GA application so as to provide them with the value of OrotonGroup's equity.

Pursuant to Section 444GA(3) of the Act, the Court will only approve such a transfer if it is satisfied that the proposed share transfer will not "unfairly prejudice the interests of members of the company". The proposed share transfer will not unfairly prejudice Shareholders if the OrotonGroup shares have no value.

We are aware that the Deed Administrators will tender this report to the Court as part of the evidence in support of their Section 444GA application. As a consequence, we have read the Expert Witness Code of Conduct (the Code) contained in Schedule 7 of the Uniform Civil Procedure Rules, which is the applicable Code for proceedings in the Court and have prepared this report on the basis that we are bound by the Code. We have made all inquiries which we believe are desirable and appropriate (save for any matters identified explicitly in this report) and no matters of significance which we regard as relevant have, to our knowledge, been withheld from the Court.

5.2 Basis of assessment

Regulatory Guide (RG) 111 "Content of expert reports", issued by ASIC provides guidance on the content of an expert report and how an expert can help security holders make informed decisions about transactions.

RG 111.8 states that there are a range of legal mechanisms that result in a control transaction and RG 111.9 states that in such cases, the expert should focus on the substance of the control transaction rather than the legal mechanism to effect it. Where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid. In addition, RG 111.11(a) notes that the expert should not reflect 'special value' that might accrue to the acquirer:

> *"Note: Any special value of the 'target' to a particular 'bidder' (e.g. synergies that are not available to other bidders) should not be taken into account under this comparison, but see RG 111.13(e)."*

Furthermore, RG 111.50 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

The Manderrah Proposal can be characterised as a control transaction as Manderrah will acquire 100% of the shares of OrotonGroup. Consequently, our valuation has been assessed on a control basis.

RG 111.15 states that "the fair value of the target securities should be determined on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid (e.g. an orderly realisation of the target's assets)". That is, an assessment of fair value should not include consideration of a company's financial distress.

Furthermore, for the purposes of determining the application for relief from the operation of Section 606 of the Act, ASIC has specifically requested that the IER assess the valuation of OrotonGroup shares on a 'going concern' basis.

'Going concern' is commonly applied to the preparation of financial statements and is defined as the assumption that the entity "will continue its operations for the foreseeable future….When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business."[22]

In seeking to determine the fair value of the OrotonGroup on a 'going concern' basis it is necessary to deviate from the standard definition as OrotonGroup was unable to discharge its liabilities in the normal course of business. In this respect we have valued the operating business on a 'going concern' basis and then deducted the secured net borrowings that existed as at 24 February 2018, the full amount of the Deed Administrators' assessment of priority creditors (employees), landlord and other unsecured creditors of the Oroton Companies (Creditors) and added cash as at 24 February 2018 (after paying the costs of the voluntary administration and DOCA) and non-operating assets (net).

Our report has also considered the value of the OrotonGroup equity on a distressed basis which takes into account the situation faced by OrotonGroup whereby it does not have sufficient funding to pursue its operations for the foreseeable future. In taking into account financial distress, we have considered that the concept of fair value no longer exists, as the seller cannot be considered to be 'not anxious'. In considering a distressed value we have considered both a distressed sale basis and a liquidation basis.

5.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of OrotonGroup for the purposes of this report.

We also note the FY18 Management Accounts have not been prepared according to the Act and have not been subject to an audit by OrotonGroup's external auditors.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of OrotonGroup management (Management). In this regard, we held discussions with Management in relation to the nature of OrotonGroup's operating business, its specific risks and opportunities, its historical results and its prospects for

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[22] Source: para 2, "Auditing Standard ASA 570: Going Concern", December 2015

the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Management has been responsible for ensuring that information provided by it or its representatives is not false, misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included the following forward-looking financial information:

- reforecasts of the FY18 and FY19 statements of financial performance, financial position and cash flow for OrotonGroup prepared in May 2018 (FY18 and FY19 Forecasts), and
- a cash flow model for OrotonGroup for the period from 1 August 2017 to 30 July 2022 prepared in June 2017 and updated from time to time by Management and separately by Moelis and the Administrators (Cash Flow Model).

The FY18 and FY19 Forecasts were prepared based on the current views and assumptions of Management as well as information known to them as at 1 May 2018, however, Management has advised that the OrotonGroup future brand strategy is not defined and would be expected to impact these forecasts. Management notes that the FY18 and FY19 Forecasts are subject to various risks and uncertainties which are beyond their control. Management cannot provide any assurance that the FY18 and FY19 Forecasts will be representative of the results that will actually be achieved.

KPMG Corporate Finance has relied upon the FY18 and FY19 Forecasts in preparing its report and Management remains responsible for all aspects of these forecasts. KPMG Corporate Finance has undertaken various enquiries in relation to the FY18 and FY19 Forecasts, including holding discussions with Management in regard to the key commercial assumptions. We have reviewed the key commercial assumptions in the context of current economic (e.g. foreign exchange forward curve), financial and other conditions (e.g. industry, contractual). KPMG Corporate Finance is of the view that the FY18 and FY19 Forecasts have been prepared on a reasonable basis and, therefore, are suitable as a basis for our valuation. In making this assessment, we have taken into account the following:

- the FY18 and FY19 Forecasts were updated based on actual results to 28 April 2018
- the forecasts exclude the Gap business (from February 2018) and include the international business
- forecasts were prepared on a store-by-store basis and at a consolidated level, on a monthly basis
- the forecasts reflect the latest expectations as to the closure, refurbishment or relocation of Oroton brand stores

- forecasts include rent savings based on the reductions negotiated by Manderrah (on the assumption that any acquirer could achieve the same savings), and rent savings as a result of store closures after which rents increase in accordance with lease agreements
- sales staff salaries increase in accordance with expected growth in the Modern Award, and
- $0.6 million of public company costs are saved in the FY19 Forecast
- operational efficiencies and structural changes identified across head office and the Oroton brand as part of a wider review and as a result of the Gap franchise closure. We note that OrotonGroup does not yet have detailed plans in place for achieving some of the other head office and brand cost savings. This creates a risk that savings will be 'leaked' (e.g. initiatives are cancelled) or new initiatives are launched. This is consistent with studies of the quantum of savings achieved for a range of companies.[23] Savings in relation to the relocation of the distribution centre from Hong Kong to Sydney in June 2017 have been offset by additional distribution expenses in other areas.

KPMG Corporate Finance has adjusted the FY18 and FY19 Forecasts to remove the assumed impact of hedging and reflect the current A$/US$ forward curve as at May 2018.[24]

In regard to the Cash Flow Model:

- the Cash Flow Model was prepared by Management and Moelis in June 2017, following the announcement of the Strategic Process, to explore certain strategic options which may have involved a sale, refinancing of debt or recapitalisation of the company. The model was prepared on a store by store basis. Earlier iterations were provided to various parties for purpose of a potential refinancing, sale or recapitalisation of the business. The assumptions have been refined a number of times based on updates to OrotonGroup's financial performance, the outcomes arising from the Strategic Review and the outlook for the market
- KPMG Corporate Finance has adjusted the model based on discussions with Management, independent forecasts of growth prospects for the industry and KPMG Corporate Finance's views of the market, as well as our understanding of the potential impact of OrotonGroup's strategic initiatives and the Gap exit. In particular:
  - the Cash Flow Model has been updated to reflect the latest actual financial performance for OrotonGroup (including the financial position as at 24 February 2018) and the FY18 and FY19 Forecasts (with the impact of hedging removed and the May 2018 forward exchange rate curve adopted)
  - assumptions for FY20 and beyond have been revised to reflect assumptions that in KPMG Corporate Finance's opinion, better reflect the assumptions that a purchaser may consider appropriate. In particular:
    - revenue growth is consistent with (or above) independent forecasts for the industry, and exceeds historical growth achieved by the Oroton brand

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[23] M. Bucy, T. Fagan and C. Piaia, "Tree Tips for Keeping Transformations on Track", *McKinsey Quarterly, 2017 Number 2*. Study considered 18 performance transformations in 13 organisations across a range of industries in the Asia-Pacific. The study of transformation programs undertaken by organisations found that of initiatives identified, the cumulative value leakage was 69%.

[24] The forecasts reflected a forward curve of around A$1=US$0.72, then assume the use of derivatives. As at May 2018, the forecast curve was fairly flat at around A$1=US$0.77.

  - gross margin is maintained at FY19 levels
  - foreign exchange rates are based on the forward curve as at May 2018
  - capital expenditure and working capital requirements are consistent with requirements across the industry
  - renegotiated rent, planned operational efficiencies, public company cost savings which are fully reflected in FY19 are maintained
- a portion of expenses are contracted under agreements that specify fixed increases (e.g. store leases) or are covered by the Modern Award (e.g. sales staff salaries) and, therefore, are relatively stable and predictable
- the closure of loss making stores is assumed to occur (as a rational investor would do so), however, hypothetical assumptions (e.g. opening of yet-to-be-identified new stores with an assumed level of profitability) have been excluded
- in addition, where significant uncertainty exists (e.g. revenue growth, gross margin, foreign exchange rates), KPMG Corporate Finance has developed scenarios to reflect a range of potential outcomes.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results that will actually be achieved during the forecast period. Any variations in the forward-looking financial information may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

5.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. OrotonGroup has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to OrotonGroup. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information. As such the information in this report has been substantively limited to the type of information that is regularly placed into the public domain by OrotonGroup.

6 Industry

6.1 Overview

OrotonGroup operates within the personal accessories industry in Australia. The industry is estimated at approximately $1.2 billion as at 2017/18[25] and includes the retail and wholesale of handbags, wallets and pouches (40% of industry revenue), sunglasses (30%), luggage and travel goods (25%) and other (5%). Although OrotonGroup has in the past expanded its product range to include apparel, footwear and lingerie, its product range is currently focused on handbags, wallets, pouches, eyewear and other accessories.

OrotonGroup's price points and target customers have varied over time with changes in leadership and brand strategy. The price points and target customers currently sit between the mid-tier and luxury market ('affordable luxury'). Other retailers of handbags, wallets and pouches that compete at a similar price points and target similar customers include:

- mid to high-tier luxury brands such as Coach and Furla
- mid-tier luxury brands such as Marc Jacobs, Kate Spade and Michael Kors, and
- low-tier luxury brands such as Mimco and Colette.

At these price points, reputation and brand status are important competitive advantages, although some discounting is apparent. Other bases for competition include in-store experience and product quality.

In recent years, stronger growth has been experienced for low and mid to high-tier luxury brands, whereas lower growth has been experienced for the mid-tier luxury brands.

6.2 Industry challenges

The Australian retail industry is experiencing a number of challenges. As competition from online retailers, department stores and international labels has increased, many retailers have been driven into intense price competition, resulting in a reduction in margins. At the same time, retailers are facing increased pressure to enhance in-store experience, social media and online offerings whilst also facing continued growth in rents and sales staff salaries. Coupled with constraining cyclical factors, such as slow growth in household discretionary income and weak consumer sentiment, many Australian mid-sized fashion retailers have recently entered into voluntary administration, including Meredith & Moore (March 2016), Seduce (August 2016), Payless Shoes (November 2016), Marcs and David Lawrence Australia (February 2017), Herringbone and Rhodes & Beckett (February 2017), Topshop Topman (May 2017), OrotonGroup (November 2017), Maggie T (January 2018), Zachary the Label (February 2018) and Metalicus (May 2018) while in March 2018, Sambag's owner announced the closure of all stores[26] and in May 2018, Hong Kong based retailer Esprit announced that it was shutting all of its Australian and New Zealand stores.[27]

The particular challenges faced by mid-sized fashion retailers include:

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[25] IBIS World. Excludes the retail sale of leather clothing and footwear as well as online-only retailers.

[26] Source: "Fashion retailer Sambag closes shop after 22 years in business", The Sydney Morning Herald, 2 April 2018

[27] Source: "Global fashion brand Esprit to close all stores in Australia", The Sydney Morning Herald, 3 May 2018.

- inability to leverage an international footprint (e.g. IT systems and international marketing)
- reduced ability to take advantage of volume discounts offered by manufacturers
- smaller production runs that extend the production timeline
- inefficient supply chains, distribution and logistics
- poor inventory management
- lack of diversification (which reduces the ability to offset poor performance in a particular category or market), and
- insufficient capital to survive a sustained period of discounting by competition.

6.2.1 Increases in competition

- *International personal accessories retailers* – luxury personal accessories have outperformed the lower and mid-tier markets, supported by Australia's relatively high wages, consumer's increasing demand for global brands and inbound tourism, particularly from China. This growth has attracted a large number of domestic and international market entrants in direct competition with OrotonGroup, including Coach, Furla, Marc Jacobs, Kate Spade and Michael Kors which have gained market share in recent years. These entrants frequently offer substantial discounts in order to gain market share. These entrants have for some years focused on first retail and concession stores and within the last two to three years, have moved into factory outlets (where OrotonGroup has historically derived a majority of earnings)
- *One-stop-shop online-only retailers (e.g. ASOS, Amazon)* - the increasing accessibility of the internet, coupled with sophisticated inventory management and shipping systems, has seen Australian consumers starting to turn to international online-only retail giants such as ASOS,[28] and potentially Amazon, for personal accessories. These companies offer a 'one-stop-shop' experience and frequently provide incentives to consumers (e.g. free shipping). Their existence forces brands into price based competition as consumers can make direct price comparisons
- *Department stores (e.g. Myer and David Jones)* - have expanded their private label product ranges to include luxury brands and are able to negotiate competitive contracts with suppliers and secure exclusive agreements with popular labels. This has intensified competition for luxury retailers, as department stores now offer customers an internationally competitive shopping experience. The mid-market has also suffered as the department stores' aggressive pricing policies continue to erode product margins
- *Fast fashion retailers (e.g. Zara and H&M)* – refers to retailers which have efficient supply chains that enable them to move inexpensive products quickly from catwalk to stores to meet new trends. Zara and H&M entered the Australian market in 2011 and 2014, respectively. They have encroached the mid-tier personal accessory market by increasing

[28] Finder article: "How ASOS increased its sales by 30% in the last quarter of 2017". ASOS international sales had increased by 30% in the last four months to £489.5 million.

pressure on designers, undermining the quality and exclusiveness of their products[29] and prompting consumers to expect heavier discounting

- *Resale marketplace (e.g. eBay and Gumtree)* – is growing strongly internationally,[30] particularly for designer label handbags, and is increasingly attracting Australian consumers[31]. Myer has recently entered the resale market with 'Myer Marketplace', which targets high-end products such as personal accessories
- *Online shopping* - the dramatic rise in online shopping by Australian consumers from both overseas and domestic retailers[32] has increased competition as consumers can now reach a wider range of brands and can also compare the same branded product across multiple retailers, bypassing online corporate stores in the search of cheaper prices. Whilst bricks-and-mortar establishments and foreign websites still capture most high-end handbag sales, operators in the lower to mid-tier market have suffered reduced margins and lower product sales as a result.

6.2.2 *Changes in market dynamics and need for capital investment*

- *Investment in online platforms* - significant capital is required for technology and logistics software to improve product delivery and customer service. Due to the greater economies of scale, larger operators also tend to invest in automated inventory management systems to capitalise on the enhanced efficiency they provide
- *Use of internet and social media* - the use of the internet (e.g. search engine optimisation) and social media are increasingly important tools for retailers. Across the entire retail category, Facebook and Instagram are considered clear favourites in Australia, attracting 74% and 54% of respondents in the 2018 Australian Outlook Survey[33] as the preferred social medium. In particular, the use of influencers as part of a marketing strategy has become widespread in retail with a recent study by research firm L2 finding that 70% of brands reported using Instagram influencers in 2016[34]. Moreover, luxury brands, as a sub category, led the study with 91% reporting the use of influencers. The use of social media is expected to rise across the entire personal accessories category, particularly as mobile shopping grows in popularity
- *Focus on customer experience* - despite the apparent demise of 'bricks-and-mortar' stores and the subsequent rationalisation of stores, physical stores continue to be a key focus for retailers globally. According to a KPMG Consumer & Retail report[35], it is expected that 90% of all retail goods will continue to be sold in physical stores in 2019. The key driver for new openings is the growing importance of creating interesting customer experiences, with

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[29] Forbes article: "How Two Women Are Slowing Down Fast Fashion With A Unique Business Model", 14 November 2017

[30] According to an industry report by global resale disruptor Thredup, the global resale market (49% of which is attributable to clothing, shoes and accessories), although predominantly United States, has grown by around 49% in 2017 to $US20 billion and is expected to more than double to $US41 billion by 2022

[31] For example: Gumtree reported that 2.8 million Australians on sold their gifts during the 2016 Christmas season

[32] eMarketer, "Worldwide Retail and Ecommerce Sales: eMarketer's updated forecast and New Mcommerce estimates 2016-2021".

[33] Source: "2018 Australian Outlook Survey", Inside Retail

[34] Retail Drive article: "70% of brands use Instagram influencers", 3 October 2017

[35] KPMG Global Consumer & Retail group, "Global retail trends 2018"

leading global retailers taking advantage of their physical spaces to maximise experience per square foot and capitalise on their real life customer interactions. Online operations complement this process as with technological advancements made in big data and artificial intelligence, retailers can now deliver more personalised, customised and localised experiences to their customers throughout their omni-channel network. At approximately one shop for every 320 people, Australia is currently third to the United States and Canada in per capita shopping density, placing even more pressure on retailers to stand out

- *Increases in store rental costs* - high shopping density in Australia has allowed building owners to increase rents, which in recent years have been at record highs in Sydney and Melbourne[36]. This is particularly challenging for personal accessory retailers whose primary retail stores, otherwise known as 'first retail', are also often located in expensive prime retail locations to maximise foot traffic. As factory outlets draw sales away from these prime locations, rent becomes a significant overhead for personal accessory retailers, which is further exacerbated for luxury brands that tend to have larger floor spaces. The shift to online sales has also placed margin pressure on retailers with 'bricks and mortar' stores by reducing their cost competitiveness and a number of retailers have onerous lease agreements
- *Sales staff salaries* – represent a significant cost for retailers of personal accessories. Sales staff are generally covered by the Modern Award, whereby hourly rates increase by 2% to 3.5% per annum.

6.2.3 Cyclical factors

The retail industry is currently experiencing a cyclical downturn. The key drivers of demand are as follows:

- *Consumer sentiment* – consumer sentiment remained negative throughout 2017, although it has turned positive in 2018[37]
- *Real household income* – influenced by interest rates, household leverage (debt to disposable income), wages growth and employment. Despite the positive impact of the currently low cash rate,[38] a decline in wages growth[39] and underemployment[40] have resulted in weak growth in the average household's weekly disposable income, which increased by just $27 to $1,009 from 2008 to 2017.[41] Furthermore, Australian households are spending a growing proportion of their incomes on 'basics' such as housing, food, energy, healthcare and transport, as opposed to 'discretionary' purchases, such as personal accessories
- *Foreign exchange rates* - exchange rate fluctuations have a two-fold impact: e.g. a depreciating Australian dollar makes imported goods less attractive but increases purchase costs for Australian retailers that source products from overseas. The Australian dollar depreciated by around 23% against the Trade Weighted Index from January 2012 to January

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[36] ABC News: "Home prices keep rising, Melbourne overtaking Sydney", 3 October 2016

[37] Westpac-Melbourne Institute of Consumer Sentiment Index, January 2018 and February 2018

[38] The RBA reduced the target cash rate from 4.75% in October 2011 to 1.5% in August 2016 where it has remained.

[39] Deloitte Access Economics, Retail Forecasts February 2018, released 23 March 2018. Wages growth, as measured by the Wage Price Index (ABS) has been in decline since 2012 and is at a ten year low of 2.1%.

[40] The labour force underutilisation rate (ABS) was 13.9% as at February 2018

[41] News.com.au article: "Australian households spending more on basics as incomes stall", ABS survey shows, 13 September 2017

2016, then remained relatively flat. Whilst this has increased the competitiveness of Australian retailers, it has increased costs of internationally purchased inventories

- *Tourism* - tourists that visit Australia form an important market for personal accessory retailers, particularly in the luxury market. In 2017, spending in Australia by Chinese tourists reached a record high, exceeding $10 billion for the first time. Strong growth in major Asian economies is expected to continue to increase tourism. This demand has contributed to stronger growth in the luxury end of the market.

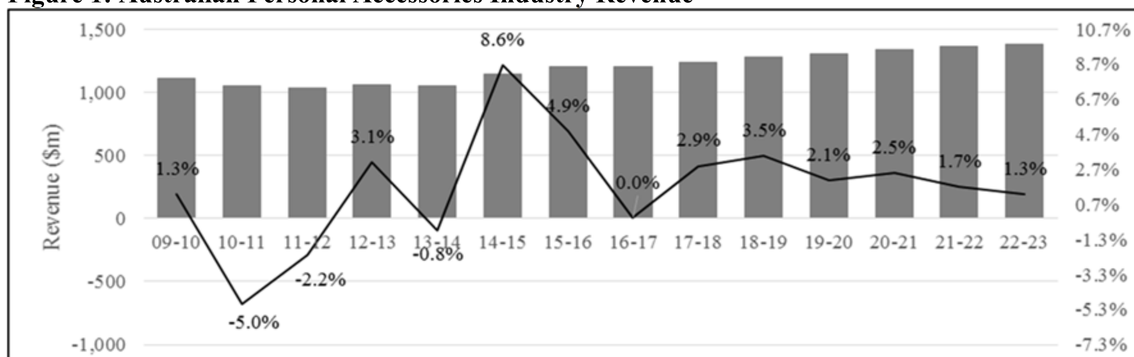
6.2.4 *Seasonal factors*

Retail sales, in general, are highly seasonal with sales fluctuating throughout the year on a month to month basis, peaking significantly in December as a result of the Christmas season. Such fluctuations cause significant cash flow and inventory management challenges for industry operators who must effectively balance their working capital, store rostering and stock levels to match the fluctuating demand and must have sufficient borrowing facilities (or cash) to fund peak demand.

6.3 Recent performance and outlook

Australian personal accessories industry revenue for the period from 2009/10 to 2022/23 is set out below:

Figure 1: Australian Personal Accessories Industry Revenue



Source: IBIS World

From 2009/10 to 2017/18, industry revenue has grown modestly by an average nominal rate of 1.4% per annum,[42] constrained by intense competition from department stores, international retailers and online retailers. Revenue growth has fluctuated widely between years, mainly reflecting cyclical factors:

- industry revenue declined in 2010/11 and 2011/12 as a result of weak consumer confidence and growth in real household income amid a global economic recession and an appreciation of the Australian dollar, making overseas products relatively less expensive
- revenue growth rebounded in 2014/15 as a result of increasing market participants in Australia and the depreciation of the Australian dollar and remained strong in 2015/16 as consumer confidence increased and the Australian dollar depreciated further

[42] Excluded from this industry are the retail sale of leather clothing and footwear as well as online-only retailers.

- revenue was flat in 2016/17 as a result of weak growth in household disposable income, negative consumer sentiment and a slight appreciation in the Australian dollar.

IBIS World expects modest nominal industry growth of an average of 2.2% over the five years to 2022/23 as a result of continued competitive pressures. In addition, cyclical factors[43] continue to indicate a soft retail market in Australia:

- whilst wage growth is expected to rise in 2018, the increase will be small and almost negligible after underemployment is taken into consideration, and
- cost of living pressures from energy and healthcare are also expected to continue through 2018, which coupled with a cooling housing market and uncertainty around the RBA rates, Australian consumers are expected to save their discretionary spending for more important 'basic' costs, however
- strong growth in major Asian economies is expected to increase tourism and, therefore, demand for luxury personal accessories.

The broader retail climate is still very difficult for Australian retailers. Macquarie Research believes the possibility of further administrations from underperforming retail chains remained a key risk leading into 2018, detailing the quantum of store closure programs released by major retailers as evidence[44]. Their report listed 22 chains in total which have collectively announced the closure of 1,032 stores, citing increased competition, high costs of rent and weekend penalty rates as contributing factors. Inclusive of OrotonGroup, 12 of the 22 listed retailers are in the broader clothing, footwear and accessories category.

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[43] Deloitte Access Economics report on Retail Forecasts (February 2018)

[44] Macquarie research, Listed property sector, 12 March 2018

7 Profile of OrotonGroup

7.1 Background

OrotonGroup was founded in 1938 as Boyd Levy & Co, a textile design company, importing textiles from Europe, and was listed on the ASX in 1987. It expanded its business offering in the 1950's to include women's bags and accessories and over time, has become one of Australia's most recognised luxury fashion brands.

OrotonGroup acquired the Ralph Lauren licence for Australia and New Zealand and opened its first Ralph Lauren store in Australia in Melbourne in 1991. It expanded the Oroton brand into New Zealand in 2004, launched online in 2006 and expanded into Asia in 2011. It introduced new, Oroton branded product categories including apparel, shoes and watches. By mid-2013, there were 61 Oroton stores in Australia and New Zealand and seven in Asia and as well as 34 Ralph Lauren stores. In 1H FY13, online sales represented 10% of Oroton brand sales and the Ralph Lauren brand contributed 47% of revenue and more than 50% of underlying EBITDA.[45]

7.1.1 Expansion strategies

The Ralph Lauren licence expired on 30 June 2013 and remaining inventory and store assets were sold to Ralph Lauren Corporation for $12.8 million. Mr Mark Newman was appointed as Chief Executive Officer (CEO) and the Board approved the investment of significant capital in growing the business including:

- entering into the Brooks Brothers Joint Venture in August 2013 (owned 51% by OrotonGroup and 49% by Brooks Brothers International LLC)
- entering into an exclusive franchise agreement with Gap, Inc. in October 2013 to develop the brand in Australia and New Zealand[46], and
- continuing overseas expansion of Oroton stores.

By July 2015, OrotonGroup had 56 Oroton stores in Australia and New Zealand, 15 Oroton international stores, six Gap stores and an interest in 15 Brooks Brothers stores.

7.1.2 Rationalisation of the business

The Brooks Brothers Joint Venture, Gap licence and international business failed to yield positive earnings. As a result, Management undertook the following initiatives:

- divested its interest in the Brooks Brothers Joint Venture in July 2015
- rationalised loss making international operations
- repositioned the Oroton brand to 'affordable luxury' in FY15, and
- exited non-core Oroton categories (apparel, footwear and lingerie) in FY16.

In addition, it acquired a 31.4% interest in TDE Pty Limited (TDE) in April 2017 for $4.5 million (comprising $2.7 million of cash to be injected into TDE and $1.8 million of

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[45] Underlying EBITDA is earnings before interest, tax, depreciation and amortisation, significant and non recurring items and profit/(loss) from equity accounted investments.

[46] The term of the agreement was ten years, with the option to renew for a further ten years. In certain circumstances, OrotonGroup and Gap, Inc, could elect to enter into a 50/50 joint venture for fair market value after five years.

OrotonGroup shares issued to the TDE Founding Shareholders) and $1.0 million of contingent consideration.

These initiatives failed to turn profits around. Although the international business was marginally profitable in FY17, Gap remained loss making and earnings for the Oroton brand declined steeply. OrotonGroup provided profit warnings in January 2017 and May 2017 and on 17 May 2017, announced that it had hired an investment bank (Moelis) to conduct a Strategic Process. The CEO, Mark Newman, resigned on 11 April 2017. OrotonGroup subsequently reached an agreement in August 2017 with Gap, Inc to discontinue the Gap franchise business in Australia. In addition, the wind down of the Brooks Brothers management arrangement was largely completed in FY17 and office rental income received by OrotonGroup ceased in May 2018.

7.1.3 *Appointment of the Administrators*

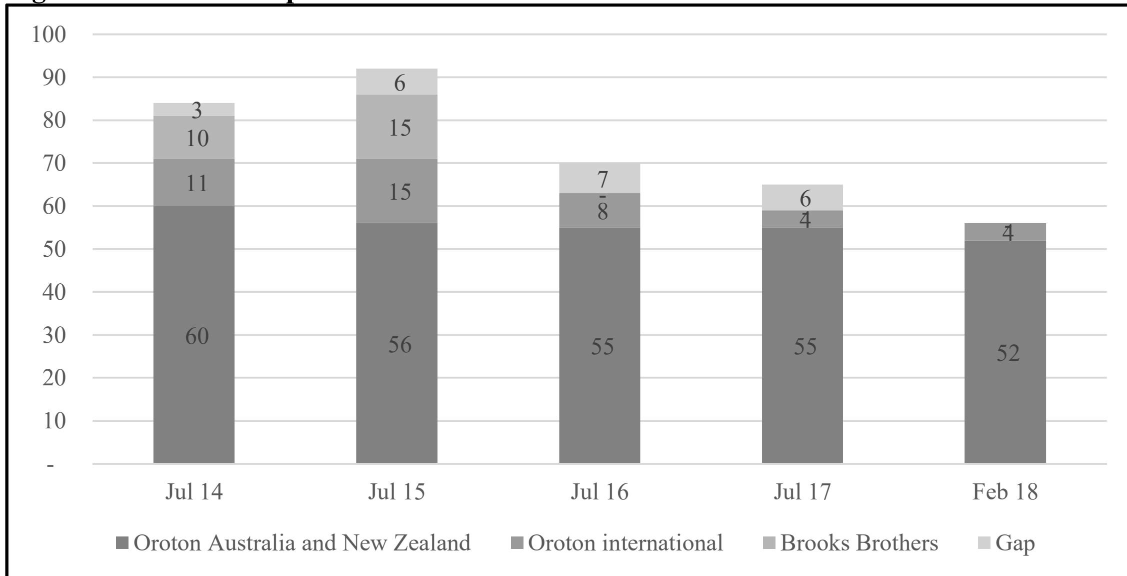
Since their appointment on 30 November 2017 (as discussed in Section 4.3 of this report), the Administrators have:

- overseen the orderly wind-down of the Gap branded stores (completed by 11 January 2018)
- closed three underperforming Oroton first retail stores and an Oroton pop up concession store, and
- agreed a sale price with the TDE Founding Shareholders whereby the Founding Shareholders acquired OrotonGroup's interest in TDE in May 2018 for $2.2 million.

Following the completion of these initiatives, OrotonGroup is focused exclusively on the design, development, marketing and distribution of luxury, Oroton branded leather goods and related accessories across 50 'bricks and mortar' stores in Australia, two in New Zealand, four stores in Malaysia, an online concession store and Oroton.com.au, which represented 11% of Oroton brand sales in FY17.

The growth in stores as a result of expansion strategies implemented in FY14 and FY15 and the subsequent exit of non-core brands and rationalisation of Oroton stores in Australia and internationally is illustrated in the following chart.

Figure 2: OrotonGroup number of 'bricks and mortar' stores



Source: OrotonGroup Annual Reports.
Note: There were 15 Brooks Brothers stores during FY15 and the stores were closed by 25 July 2015.

7.2 *Oroton brand*

7.2.1 *Overview*

The value of OrotonGroup's operating business reflects the future cash flows expected to be generated by the Oroton business. Our analysis of OrotonGroup's operations focuses on the remaining Oroton business as it has exited the Gap and Brooks Brothers operations and sold its interest in TDE. These operations are relevant only to the extent that they impact non-operating assets/(liabilities) or cash balances.

Following the exit of non-core categories (apparel, footwear and lingerie) in FY16, the Oroton branded product range comprises handbags, wallets, pouches, eyewear and other accessories. It also licences the Oroton brand for the design, production and distribution of eyewear accessories, including sunglasses.

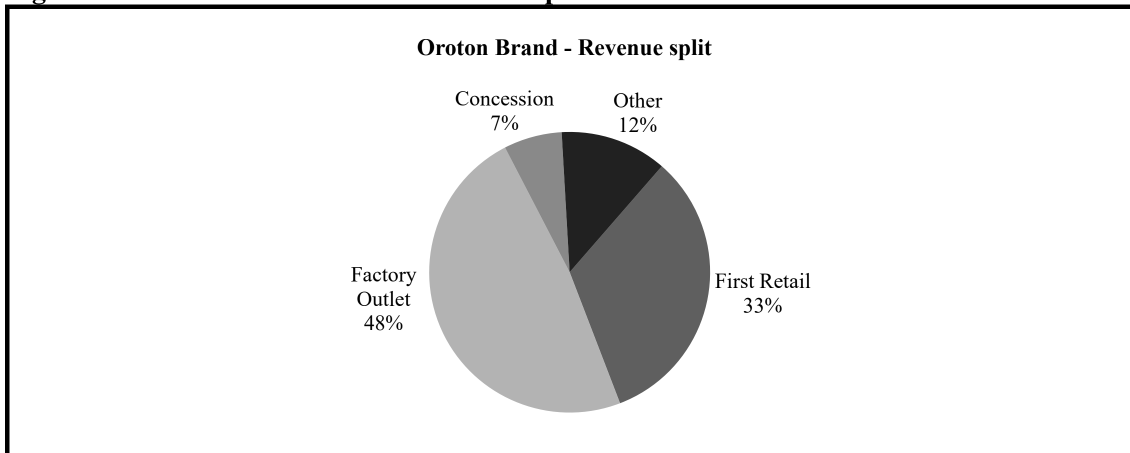
7.2.2 *Distribution channels*

OrotonGroup is a multi-channel (omni-channel) retailer of Oroton-branded products and operates across the following channels:

- first retail stores – primary Oroton-branded retail stores primarily located in shopping centres
- concession stores – outlets operating in authorised department stores (Myer and David Jones) under concession agreements, excluding online sales
- factory outlets – offers discounted price items that are made-for-factory, outdated or excess stock and are typically located in premises where rents are lower, and
- other – includes online sales (including the Oroton.com website and one online concession store), wholesale (including to David Jones and the Iconic, as well as excess stock provided to TK Maxx and OzSale) and other avenues.

Revenue from first retail stores and factory outlets contributes a significant proportion of Oroton brand sales (81% in FY17) with almost half of revenue derived from factory outlets (48%). The remaining revenue is sourced from concession stores and other distribution channels (including e-commerce and wholesale). The FY17 revenue composition for the Oroton brand (by distribution channel) is shown in the figure below.

Figure 3: FY17 Oroton brand revenue composition



Source: OrotonGroup Management accounts.

In Australia, Oroton brand stores are located primarily in New South Wales and Victoria, with additional stores across Queensland, Western Australia, South Australia and the Australian Capital Territory. Internationally, it has a presence in New Zealand and Malaysia. The Oroton brand retail footprint is summarised in the table below.

Table 3: Oroton brand stores by channel and region as at June 2018

Store type	First Retail	Factory Outlet	Concession	Online	Total
Oroton brand					
Australia	29	11	10	2	**52**
New Zealand	1	1	-	-	**2**
Malaysia	2	2	-	-	**4**
Total - Oroton brand	**32**	**14**	**10**	**2**	**58**

Source: Management.
Note 1: Includes an online concession store.

OrotonGroup's stores are leased under long term agreements (up to five years, some of which have renewal options) which have inbuilt annual cost escalations, which are typically linked with the CPI plus a margin.

7.2.3 *Supply chain*

Oroton's seasonal stock is ordered ahead of the launch for each season and is replenished from OrotonGroup's third party operated distribution centre on a weekly basis throughout the sales season. The production cycle has a fairly long lead time. Typically, a seasonal product has a 12 month timeline from design to launch, including:

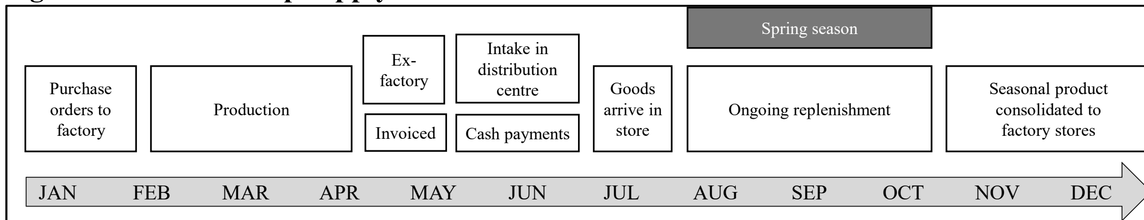
- six months for design, sample development and "open to buy" confirmation before orders are placed with factories
- three months for production, where all products are manufactured overseas (mainly in Vietnam and China) and are predominantly purchased in US dollars, and

- product leaves the factory around 2.5 months prior to in-store launch and is held in OrotonGroup's third party operated distribution centre until its arrival in the store.

Stock is typically replenished from the distribution centre throughout the season. Excess stock is sent to factory outlets where it is sold at discounted prices.

An illustrative timeline of OrotonGroup's supply chain process over the spring season (from August to October) once purchase orders are made is depicted in the figure below.

Figure 4: OrotonGroup supply chain illustrative timeline



Source: Management.

OrotonGroup is invoiced when the product leaves the factory and cash payments are made when products are received at the distribution centre (i.e. around 30 days later).

OrotonGroup currently has a third party operated (and leased) distribution centre located in Sydney. In June 2017, OrotonGroup relocated its Hong Kong distribution centre to Sydney, which was expected to result in operational, tax and duty savings (compared to FY17). Whilst some of these savings have materialised they have been offset by additional distribution expenses in other areas.

OrotonGroup recently reached an agreement to terminate its distribution centre contract. The further relocation in May 2018 has disrupted the business as follows:

- a higher than usual inventory build-up in stores due to the lack of inventory support provided by a fully functional distribution centre
- potentially reducing sales volumes as delivery times will be extended to three weeks for online orders during the launch of Oroton's winter collection around May 2018
- inability to participate in 'Click Frenzy' promotions, and
- delaying the ability to provide enhancements (e.g. gift wrapping and delivery options).

7.2.4 *Brand strategy*

OrotonGroup's brand strategy has changed over time with changes in leadership. In FY15, it sought to reposition the Oroton brand towards 'affordable luxury'. This initiative involved:

- entering into a three year partnership with Australian actress, Rose Byrne, as the celebrity face of the brand from August 2014
- development and rollout of a new international quality store concept at first retail stores and an upgrading of visual merchandising standards
- increasing average selling prices through the elimination of 'Friends & Family' type discounts (initially introduced around 2011), the introduction of higher average price points and limited edition products. Price points are above mid-tier prices but below high-end luxury brands, and
- investing in marketing and technology to enhance customer engagement and increase online sales.

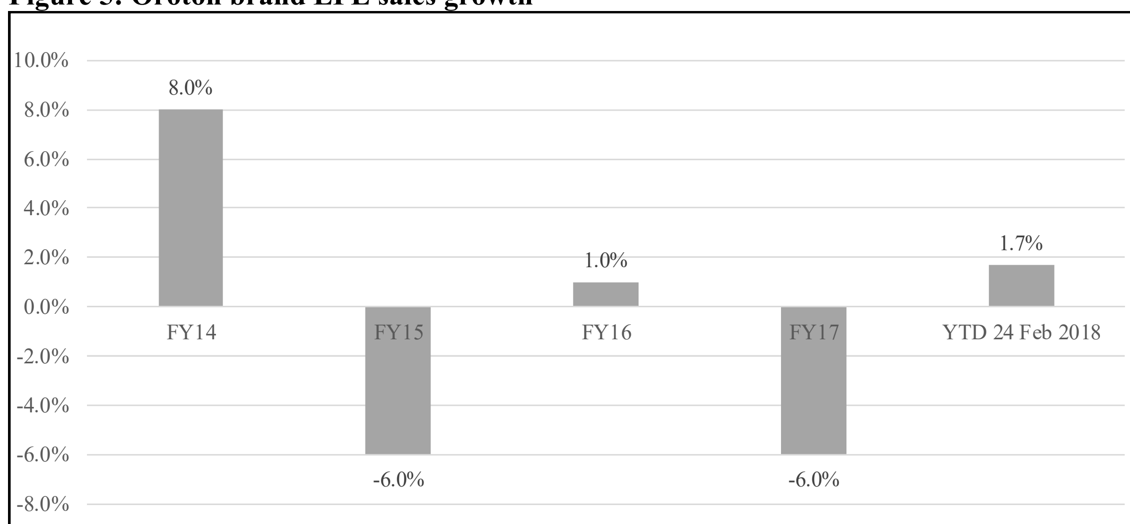
As part of the Strategic Process, OrotonGroup implemented additional initiatives to help drive growth, including:

- engaging a new part-time consultant to steer the creative direction and design for the Oroton brand. The first full season stock designed under the leadership of the consultant is expected to launch in stores by spring 2018. The consultant was also involved in marketing campaigns for the spring/summer 2017 and fall/winter 2018 collections
- maximising customer time in first retail stores by offering a sales bay for outdated stock and undiscounted new season stock to maintain the Oroton brand's element of 'luxury', and
- increased focus on and investment in factory outlet stores, including visual merchandising and staffing, and
- reduced investment in made-for-factory product lines (as a number of factory outlet stores attract a similar clientele to first retail stores).

7.2.5 *Like-for-like sales growth*

The Oroton brand 'like-for-like' (LFL) sales growth[47] is illustrated in the following chart.

Figure 5: Oroton brand LFL sales growth



Source: OrotonGroup Annual Reports and financial results presentations and unaudited Management Accounts FY18 YTD

LFL sales growth for the Oroton brand declined by an average of 2.8% over the past three years and seven months to 24 February 2018.

In FY14 and FY15, Oroton brand sales were negatively correlated with growth in the broader accessories market (refer to Section 6.3 of the report). Rather, its sales trend during these periods reflects company specific initiatives. In particular:

- growth in sales in FY14 reflects higher volumes associated with the 'Friends & Family' discounting, and
- the decline in sales in FY15 reflects:

[47] 'LFL' sales excludes discontinued categories in FY17 and adjusts for differences in the number of weeks per FY and store openings and closures

- a considerable shift in sales from first retail stores to factory outlets as a result of significantly less discounting in first retail stores as part of the repositioning of the brand combined with continued consumer demand for heavily discounted items
- elimination of 'Friends & Family' discounts

Growth resumed in 1H FY16 (+11%[48]) as the brand repositioning strategy and favourable industry conditions resulted in higher volumes and average transaction values (despite flat foot traffic).

Sales declined in the second half of FY16 (resulting in 1% growth in FY16 as indicated in the chart above) and in subsequent periods as a result of:

- challenging industry conditions including:
  - a soft retail environment (refer to Section 6.3 of the report)
  - lower foot traffic and sales in the Oroton factory outlet stores as a result of an increased presence of international brands and their more aggressive promotions, and
- strong growth in online sales in FY16 and FY18 (although online sales growth was lower in FY17 as a result of reduced factory sales).

LFL sales increased by 1.7% in the seven months to 24 February 2018, reflecting strong November and December sales (particularly online sales) following the announcement that OrotonGroup had entered voluntary administration. Since then, LFL sales have declined and in YTD period to 2 June 2018, declined by 1.0% relative to the corresponding period in the prior year.

7.3 *TDE Pty Limited*

In April 2017, OrotonGroup entered into a Subscription Deed with the TDE Founding Shareholders to acquire a 31.4% interest in TDE. Based in Australia, TDE operates a lifestyle fashion accessories brand called "The Daily Edited", which has an additional presence in Singapore and the United States. Its key product offerings focus on personalised leather accessories for both women and men, including bags, wallets, phone cases, and laptop bags. The brand targets the younger demographic market and operates a direct-to-consumer model primarily through its online platform and concession stores, as well as standalone retail stores.

The TDE Founding Shareholders granted OrotonGroup various call options to increase its interest and OrotonGroup granted the TDE Founding Shareholders put options to sell their remaining interests in TDE to OrotonGroup. The TDE Founding Shareholders have exercised this right and the Deed Administrators have agreed a sale price of $2.2 million.

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[48] Results presentation for 1H FY16

7.4 Financial performance

The financial performance of OrotonGroup for FY14 to FY17 (audited) and for the seven months ended 24 February 2018 (FY18 YTD) (unaudited Management Accounts not in compliance with the Act) are summarised below.

Table 4: Financial performance of OrotonGroup

Period $ million unless otherwise stated	FY14 Audited	FY15 Audited	FY16 Audited	FY17 Audited	FY18 YTD Unaudited
Number of weeks	*52*	*52*	*53*	*52*	*30*
A$/US$ purchase rate	*0.95*	*0.90*	*0.86*	*0.81*	*0.79*
Average spot rate (Source: IRESS)	*0.92*	*0.82*	*0.73*	*0.76*	*0.78*
Revenue:					
Oroton sales			103.2	93.4	57.9
Oroton licence			1.3	1.3	0.9
Gap sales			31.0	27.5	25.2
Management fees from Brooks Brothers joint venture	0.8	1.1	0.8	0.8	0.1
Total revenue	**124.7**	**131.9**	**136.3**	**123.1**	**84.2**
Underlying cost of goods sold	(46.9)	(51.9)	(54.4)	(50.9)	(37.5)
Underlying gross margin	**77.8**	**80.0**	**81.9**	**72.3**	**46.8**
Underlying cost of doing business					
Warehouse and distribution	(2.8)	(4.3)	(3.7)	(4.5)	
Marketing	(1.9)	(2.7)	(3.5)	(3.8)	
Selling	(41.1)	(49.0)	(49.9)	(49.8)	
Administration	(12.5)	(12.1)	(12.0)	(11.7)	
Total underlying CODB[1]	**(58.3)**	**(68.1)**	**(69.1)**	**(69.8)**	**(40.3)**
Underlying EBITDA:					
Oroton Brand			19.9	12.9	8.2
Gap Brand			1.0	(2.5)	3.4
Unallocated			(7.9)	(7.7)	(4.5)
Total Underlying EBITDA[2]	**19.6**	**12.1**	**12.9**	**2.7**	**7.1**
Depreciation and amortisation:					
Oroton Brand			(3.1)	(3.1)	(1.2)
Gap Brand			(1.4)	(0.7)	0.0
Unallocated			(0.5)	(0.5)	(0.5)
Total depreciation and amortisation	**(5.5)**	**(5.3)**	**(5.1)**	**(4.4)**	**(1.6)**
Underlying EBIT:					
Oroton Brand			16.8	9.8	7.1
Gap Brand			(0.5)	(3.2)	3.4
Unallocated			(8.4)	(8.2)	(5.0)
Total underlying EBIT[3]	**14.1**	**6.8**	**7.8**	**(1.7)**	**5.5**
Net interest expense	(0.1)	(0.6)	(0.3)	(0.3)	(1.8)
Share of net profit from equity accounted investments	(0.8)	(1.8)	-	0.0	0.4
Significant and non-recurring items[4]	-	0.6	(1.6)	(15.6)	0.3
Profit before tax	**13.2**	**5.1**	**5.9**	**(17.6)**	**4.4**
Income tax expense	(4.9)	(2.4)	(2.4)	3.4	(0.9)
Net profit attributable to OrotonGroup shareholders	**8.3**	**2.6**	**3.4**	**(14.3)**	**3.4**
Statistics					
Basic earnings per share	*20.20c*	*6.41c*	*8.43c*	*-34.68c*	*na*
Underlying earnings per share	*22.20c*	*9.30c*	*11.36c*	*-8.15c*	*na*
Distribution per share	*16.00c*	*6.50c*	*9.00c*	*0.00c*	*na*
Payout %of underlying NPAT	*72%*	*70%*	*79%*	*0%*	*na*
Revenue growth	*25.4%*	*5.8%*	*3.3%*	*-9.6%*	*14.3%*
Gross margin growth	*16.6%*	*2.8%*	*2.4%*	*-11.7%*	*5.5%*
Underlying EBITDA growth	*14.3%*	*-38.3%*	*6.9%*	*-79.1%*	*na*
Underlying gross margin	*62.5%*	*60.7%*	*60.1%*	*58.7%*	*55.5%*
Underlying CODB margin	*46.8%*	*51.6%*	*50.7%*	*56.7%*	*47.8%*
Underlying EBITDA margin	*15.7%*	*9.2%*	*9.5%*	*2.2%*	*8.4%*
Underlying EBIT margin	*11.3%*	*5.2%*	*5.8%*	*-1.3%*	*6.5%*
Interest cover[5]	*71.9*	*17.1*	*28.5*	*7.3*	*4.0*

Source: OrotonGroup Annual Reports FY13 to FY17; Unaudited Management Accounts for the seven month periods to 25 February 2017 and 24 February 2018; KPMG Corporate Finance analysis.

Notes:

1. *CODB is cost of doing business.*
2. *Underlying EBITDA is earnings before interest, tax, depreciation, amortisation and impairments, significant and non-recurring items and profit/(loss) from equity accounted investments.*
3. *Underlying EBIT is earnings before interest, tax, significant and non-recurring items and profit/(loss) from equity accounted investments*
4. *Refer to Table 5 of this report.*
5. *Interest cover is Underlying EBITDA divided by interest expense.*

FY14 is the first full year following the expiration of the Ralph Lauren licence on 30 June 2013. It includes the partial year impact of the Gap operations (which commenced in November 2013) and equity accounted losses from the Brooks Brothers Joint Venture (from February 2014).

Revenue

OrotonGroup's external sales revenue has predominantly comprised sales of Oroton and Gap products. In addition, OrotonGroup generates fees from licencing the Oroton brand, management fees from the Brooks Brothers Joint Venture (mainly until FY17) and office rental income from the Brooks Brothers Joint Venture (until May 2018).

OrotonGroup revenue increased in FY14, FY15 and FY16 as a result of the inclusion of the Gap business and growth in Gap sales as new stores were opened, as well as the impact of having an additional week of trading in FY16. This growth was partially offset by a decline in revenue from the Oroton brand in each of these periods.

In FY17, revenue declined by 10% as a result of a sharp decline in both Gap and Oroton brand sales. Gap sales declined by 11% as a colder than expected spring lead to more aggressive discounting and the women's range did not resonate with shoppers while Oroton sales declined by 9.1%. These decreases also reflect the impact of having one less week of trading in FY17.

Revenue is seasonal and a large share of revenue is generated during the Christmas and post-Christmas sales periods. Revenue increased by 15% in FY18 YTD relative to the comparable prior period as a result of:

- a 3% increase in Oroton sales as a result of strong November and December sales following the announcement that OrotonGroup had entered voluntary administration, and
- a 65% increase in Gap sales, as a result of 'closing down' sales and having three seasons of stock.

Underlying gross margin

Underlying gross margin declined from 67.2% in FY13[49] to 58.7% in FY17[50] as a result of:

- a shift in mix towards higher volume, lower margin Gap products (relative to Oroton products) in FY14
- a sharp decline in the Oroton brand gross margin (constant currency basis) in FY14 as a result of discounting
- a depreciation of the Australian dollar, partially offset by the impact of hedging. Hedged exchange rates declined from A$1=US$0.95 in FY14 to A$1=US$0.81 in FY17, partially offset by
- an increase in the Oroton brand and Gap brand gross margins (constant currency basis) from FY14 to FY17.

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[49] Based on earnings from continuing operations (i.e. excluding Ralph Lauren)

[50] Excludes $0.9 million inventory provision due to Gap exit, which is included in significant and non-recurring items.

Underlying Cost of Doing Business (CODB)

OrotonGroup's cost of doing business (CODB) primarily includes selling expenses (mainly store leases and sales staff) (71% of FY17 CODB) as well as administration expenses (17%), warehouse and distribution costs (6%) and marketing expenses (5%).

Underlying CODB as a percentage of sales:

- increased in FY15 as a result of a higher mix of Gap in the cost base, partially offset by expense control
- decreased in FY16 as warehouse, distribution and administration costs were reduced and selling costs were contained, while still increasing investment in marketing, then
- increased in FY17 as sales declined substantially while costs increased marginally.

Underlying EBITDA

Underlying EBITDA margin declined from 17.2% in FY13[49] to 2.2% in FY17 as a result of the decline in gross margin and in FY17, as fixed costs increased slightly despite a 9.6% decline in revenue. This reflects that a substantial share of costs (e.g. store leases, warehouse and distribution and administration) are mostly fixed (or subject to fixed price increases). This decline occurred despite the closure of loss making international stores (such that underlying EBITDA from international stores was positive in FY17).

Corporate and administrative expenses include staff costs (finance, legal, executive and human resources), fees to external service providers (audit, tax) and approximately $1.3 million in public company costs in FY17 (such as Directors' fees, audit fees, insurance fees, listing and registry expenses), a portion of which were unusual (e.g. going concern audit fees).

Other items

Despite significant capital expenditure associated with the rollout of new stores and store fit-outs as part of the brand repositioning strategy, depreciation remained relatively stable throughout the period above as a result of asset write downs.

Income from equity accounted investments relates to:

- a 51% interest in the Brooks Brothers Joint Venture from commencement of operations in February 2014 until July 2015, when the interest was sold, and
- a 31.4% interest in TDE from April 2017.

Net interest expense has generally increased as borrowings have increased.

OrotonGroup has identified the following significant and non-recurring items.

Table 5: Significant and non-recurring items

Period $ million unless otherwise stated	FY14 Audited	FY15 Audited	FY16 Audited	FY17 Audited	FY18 YTD Unaudited
Onerous Hong Kong Store lease after exit	-	(0.8)	-	-	-
Closure of Singapore office	-	(0.2)	-	-	-
Gain on exit of Brooks Brothers Australia joint venture	-	1.7	-	-	-
Impairment of non-current Oroton store assets	-	-	(0.8)	(3.5)	-
Management separation	-	-	-	(0.5)	-
Strategic Process - Oroton brand	-	-	-	-	(0.0)
Strategic Process - head office	-	-	-	(1.1)	(0.8)
Other	-	-	-	-	(0.2)
Subtotal	**-**	**0.6**	**(0.8)**	**(5.1)**	**(1.0)**
Gap exit and other costs:					
Costs to exit lease contracts	-	-	-	(5.2)	-
Net unavoidable onerous lease costs	-	-	-	(2.9)	-
Accelerated unwind of fixed rent increase	-	-	-	0.6	-
Accelerated amortisation of deferred lease incentives	-	-	-	0.9	-
Reversal of make good provision	-	-	-	0.3	-
Inventory provision	-	-	-	(0.9)	-
Hedge contract ineffectiveness	-	-	-	(0.9)	-
Impairment of non-current Gap store assets	-	-	(0.9)	(2.3)	-
Staff severance, legal and consulting	-	-	-	-	(1.6)
Unwind of provision	-	-	-	-	2.9
Total Gap exit and other costs	**-**	**-**	**(0.9)**	**(10.5)**	**1.2**
Total significant and non-recurring items	**-**	**0.6**	**(1.6)**	**(15.6)**	**0.3**

Source: OrotonGroup Annual Reports FY13 to FY17; Unaudited Management Accounts for the seven month periods to 25 February 2017 and 24 February 2018; KPMG Corporate Finance analysis.

In FY17, OrotonGroup incurred $10.5 million of costs (net) associated with the exit from the Gap business and impairment of the Gap store assets, $3.5 million impairment of the Oroton brand store assets, $0.5 million in management separation costs paid to the departing OrotonGroup CEO and $1.1 million costs associated with the Strategic Process.

In FY18 YTD, OrotonGroup incurred $0.8 million of expenses related to the Strategic Process, $1.6 million of severance, legal and consulting expenses related to the Gap exit and $0.2 million of other costs, offset by the unwinding of a provision for Gap store onerous leases. Fees relating to the voluntary administration have been recorded on a cash only basis.

OrotonGroup Limited and its wholly owned Australian subsidiaries form a tax consolidated group. The group recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable amounts will be available to utilise those losses. At 29 July 2017, OrotonGroup reported:

- nil recognised deferred tax assets in relation to carried forward income tax losses
- unrecognised carried forward income tax losses of approximately $17.1 million, including $4.8 million in the Australian consolidated group and $12.3 million overseas tax losses (representing a tax benefit of $3.8 million at statutory rates), and
- unrecognised capital losses of $19.9 million (a tax benefit of $5.7 million at 30%).

Dividends were substantially curtailed in FY15 as earnings declined, then increased slightly in FY16. From FY14 to FY16, dividends ranged from 70% to 79% of underlying earnings per share. No dividend was declared in respect of earnings for FY17 or 1H FY18.

7.5 *Oroton brand financial performance*

The financial performance of the Oroton brand (excluding unallocated head office costs) for FY14 to FY17 (audited) and for the seven months ended 24 February 2018 (FY18 YTD) (unaudited and not in accordance with the Act) are summarised below.

Table 6: Financial performance of Oroton brand

Period $ million unless otherwise stated	FY14 Audited	FY15 Audited	FY16 Audited	FY17 Audited	FY18 YTD Unaudited
Number of weeks	*52*	*52*	*53*	*52*	*30*
Oroton Australia and New Zealand stores	*60*	*56*	*55*	*55*	*52*
Oroton international stores	*11*	*15*	*8*	*4*	*4*
A$/US$ purchase rate	*0.95*	*0.90*	*0.86*	*0.81*	*0.79*
Average spot rate (Source: IRESS)	*0.92*	*0.82*	*0.73*	*0.76*	*0.78*
Revenue:					
Oroton sales	**108.0**	**103.2**	**103.2**	**93.4**	**57.9**
Gross margin (constant currency)	56.0	54.9	53.7	50.2	33.0
Net margin	**67.3**	**62.8**	**60.4**	**53.8**	**33.2**
Licence fees	1.4	1.3	1.3	1.3	0.9
Underlying EBITDA			**19.9**	**12.9**	**8.2**
Depreciation and amortisation			(3.1)	(3.1)	(1.2)
Underlying EBIT			**16.8**	**9.8**	**7.1**
Statistics					
Growth in Australia and New Zealand stores	*-1.6%*	*-6.7%*	*-1.8%*	*0.0%*	*na*
Growth in international stores	*57.1%*	*36.4%*	*-46.7%*	*-50.0%*	*na*
Sales growth	*9.5%*	*-4.4%*	*0.0%*	*-9.5%*	*2.6%*
Like-for-like sales growth	*8.0%*	*-6.0%*	*1.0%*	*-6.0%*	*1.7%*
Gross margin (constant currency)	*51.9%*	*53.2%*	*52.0%*	*53.7%*	*56.9%*
Net margin	*62.3%*	*60.8%*	*58.5%*	*57.6%*	*57.3%*
EBITDA margin	*n/a*	*n/a*	*19.3%*	*13.8%*	*14.2%*
EBIT margin	*n/a*	*n/a*	*16.3%*	*10.5%*	*12.2%*

Source: OrotonGroup Annual Reports FY13 to FY17; Unaudited Management Accounts for FY13 to FY17 and for the seven month periods to 25 February 2017 and 24 February 2018; KPMG Corporate Finance analysis.

Oroton brand revenue

Oroton brand sales declined or remained flat in each of FY15, FY16 and FY17. The 4.4% decline in Oroton sales in FY15 reflects:

- a 6% decline in LFL sales (refer to Section 7.2 of this report), and
- a reduction in Australian and New Zealand store numbers, partially offset by
- an increase in international store numbers.

Flat Oroton sales in FY16 reflects:

- the closure of international stores, partially offset by
- 1% LFL growth, and
- one additional week of trading in FY16 relative to FY15.

The 9.5% ($10 million) decline in Oroton brand sales in FY17 reflects:

- a 6% LFL decline mainly due to reduced sales at factory outlets ($2.2 million)
- exit of non-core categories (lingerie, footwear and apparel) ($5.7 million), and
- one less week of trading in FY17 relative to FY16 ($1.8 million).

Although sales increased by 2.6% in FY18 YTD, sales have subsequently declined such that sales in YTD 2 June 2018 were flat (relative to the corresponding period in the prior year).

Oroton brand gross margin and net margin

The Oroton brand gross margin (constant currency basis) declined sharply in FY14 as a result of discounting, price reductions and changes to product and channel mix for Oroton branded products, then:

- increased in FY15 as a result of higher average selling prices and lower mark downs in Oroton first retail stores (as part of the brand repositioning strategy)
- declined slightly in FY16 as a result of the mix of lower margin factory sales, and
- increased in FY17 as a result of higher average selling prices and lower mark downs at Oroton first retail stores and the exit of non-core Oroton brand product categories (apparel, footwear and lingerie).

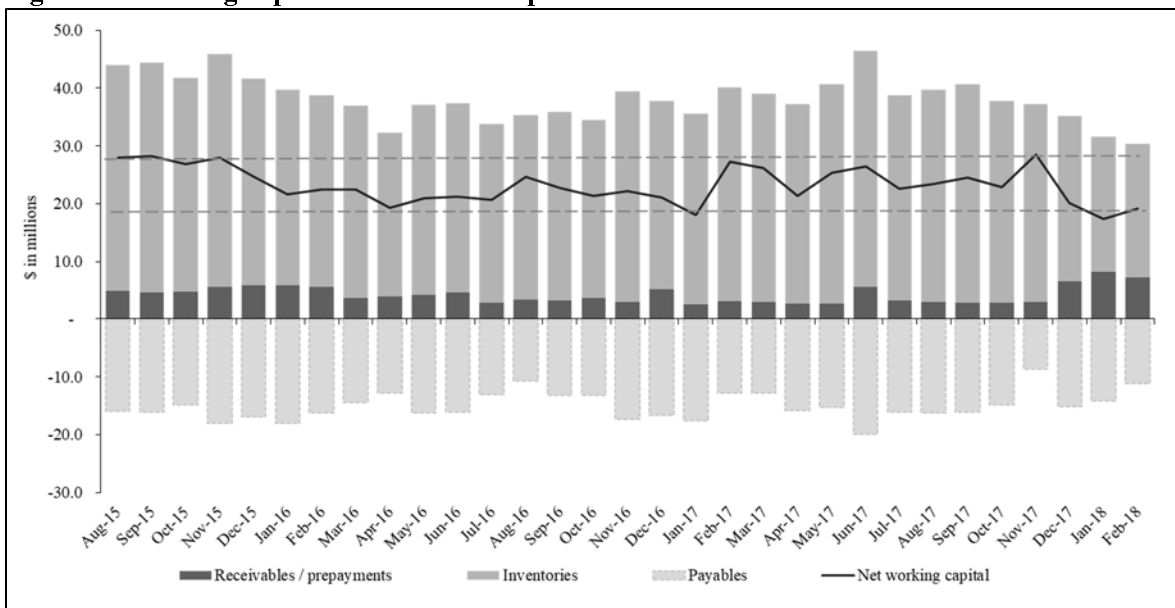
Net margin declined from 62.3% in FY14 to 57.6% in FY17 as a result of the depreciation of the Australian dollar, partially offset by the impact of hedging.

7.6 *Working Capital*

The seasonality and terms of trade result in OrotonGroup having a fluctuating working capital requirement over a given financial year. Inventory, representing the finished goods available for purchase in either stores or at distribution centres, accounts for a majority of the working capital requirement.

As illustrated in the following chart, over the 31 months to 24 February 2018, net working capital has mostly varied between $19.4 million and $27.3 million, representing a range of approximately $8 million. The average working capital requirement over the last twelve month has been $23.5 million, excluding cash and short-term payable debt.

Figure 6: Working capital of OrotonGroup



Source: Monthly Management Accounts; KPMG Corporate Finance analysis.

Working capital has declined from August 2017 to February 2018 as a result of the Gap exit.[51]

OrotonGroup's inventory requirements are high as a result of its relatively long supply chain (refer to Section 7.2.3 of this report). As discussed in Section 7.2.3, cash payments for the purchase of goods are typically made over a period of up to one month, whereas debtors are not significant as sales of retail goods are typically made in cash or credit card purchases and wholesale volumes (which have a longer payment cycle) are limited. This difference offsets inventory balances, effectively reducing net working capital requirements.

Net working capital typically peaks around June and between August and November. At this time:

- inventory is at its highest, as stock is replenished for the upcoming sales season (spring sales period from August to October and Christmas/post-Christmas sales period in December and January), and
- creditors increase in line with inventory as the company accrues invoices from suppliers for the purchased inventory, however this declines once invoices are paid (typically by the time goods arrive in store in June and between August and November).

As discussed, debtors are relatively immaterial.

Net working capital then gradually declines and is lowest around January and July. At this time:

- built up current season inventory has been substantially depleted during the sales period (although purchase orders for the next season have commenced), and
- creditors increases as purchase orders for the next season have commenced.

In order to the meet these fluctuating net working capital requirements, OrotonGroup has had a working capital bank facility in place. OrotonGroup's net borrowings and financial position are further discussed in Section 7.9 of this report.

[51] Working capital for the Oroton brand only is not available.

7.7 *Cash Flow*

The cash flow statements for OrotonGroup for FY14 to FY17 (audited) and for the seven months ended 24 February 2018 (FY18 YTD) (unaudited and not in accordance with the Act) are set out below.

Table 7: OrotonGroup cash flow

Period	FY14	FY15	FY16	FY17	FY18 YTD
$ million unless otherwise stated	Audited	Audited	Audited	Audited	Unaudited
Number of weeks	*52*	*52*	*53*	*52*	*30*
Underlying EBITDA	**19.6**	**12.1**	**12.9**	**2.7**	**7.1**
Capital expenditure (net)	(3.9)	(9.9)	(2.7)	(5.0)	(1.2)
Proceeds from release of security deposits	0.2	0.1	0.1	0.0	-
Working capital and other	4.3	(9.6)	4.1	(3.7)	5.2
Cash flow from operations	**20.1**	**(7.4)**	**14.5**	**(6.0)**	**11.0**
Interest paid (net)	(0.1)	(0.7)	(0.4)	(0.4)	(1.8)
Income taxes received/(paid)	(5.3)	(4.2)	(2.7)	0.3	(0.5)
Payment for purchase of Gap business (net of cash acquired)	(7.2)	-	-	-	-
Payment for equity accounted investment in TDE	-	-	-	(2.7)	-
Transaction costs relating to investment in TDE	-	-	-	(0.5)	-
(Payment for)/proceeds from sale of Brooks Brothers investment	(1.3)	3.7	-	-	-
Loan to Brooks Brothers joint venture	(4.3)	(2.0)	1.0	2.3	-
Dividends paid	(14.7)	(5.1)	(3.3)	(1.2)	-
Payment for share-buy backs	-	-	(0.3)	-	-
Shares purchased through employee share trust	(0.1)	(0.3)	(0.0)	-	-
Net cash generated/(used)	**(12.9)**	**(15.9)**	**8.6**	**(8.2)**	**8.8**
Net cash/(borrowings) - opening balance	***23.0***	***10.1***	***(5.8)***	***2.8***	***(5.4)***
Net cash/(borrowings) - closing balance	***10.1***	***(5.8)***	***2.8***	***(5.4)***	***3.9***

Source: OrotonGroup Annual Reports FY13 to FY17; Unaudited Management Accounts for the seven month periods to 25 February 2017 and 24 February 2018; KPMG Corporate Finance analysis.

Following the receipt of $12.8 million from Ralph Lauren Corporation (mainly in respect of inventory and store assets associated with the Ralph Lauren franchise) in FY13 as well as positive operating cash flows generated, OrotonGroup had an opening cash balance of $23.0 million as at the start of FY14. This cash, as well as cash generated from strong operational performance in FY14 and borrowings were utilised to fund:

- the acquisition of the Gap licence, purchase of inventory and store assets associated with three existing Gap stores (FY14) and investment in capital and inventory associated with the rollout of new Gap stores (three in FY15)
- the investment in Brooks Brothers Joint Venture (FY14) and loans to support the store rollout (FY14 and FY15)
- investment in new international stores (FY14 and FY15)
- the capital outlays associated with store refurbishments and relocations and new point of sale (POS) and customer relationship management (CRM) systems to support the Oroton brand repositioning strategy (which commenced in FY15)
- higher inventory purchasing costs associated with lower hedged A$/US$ exchange rates as a result of the depreciation of the Australian dollar from FY14 to FY16, and
- the payment of dividends (mainly in FY14 to FY16).

However, growth initiatives did not replace earnings from the Ralph Lauren brand and, in fact, were loss making.

In FY16, rationalisation of the business (closure of seven international and one Australian Oroton stores), a reduction in inventory associated with improved stock turns and a reduction in dividends paid resulted in positive cash flows, which were used to repay borrowings.

In FY17, despite continued rationalisation of loss making international stores, operating cash flows were negative as a result of:

- a sharp decline in underlying EBITDA due to weak industry conditions (and resulting impact on Oroton brand sales) as well as continued losses from Gap
- lower hedged A$/US$ exchange rates (increasing inventory costs), and
- higher capital expenditure (associated with five new Oroton stores, nine refurbished/renovated Oroton stores and investment in OrotonGroup's supply chain systems and new mobile responsive site).

In addition, OrotonGroup paid $2.7 million of cash consideration (and $0.5 million transaction costs) in relation to the acquisition of the investment in TDE[52] and $1.2 million of dividends in respect of FY16 earnings. As a result, net borrowings increased to $5.4 million at 29 July 2017.

Positive cash flow generated in the seven months to 24 February 2018 reflects:

- higher earnings from the Christmas and post-Christmas sale periods
- Oroton brand working capital being at a relatively low point in the cycle
- the wind down of Gap, and
- creditors not being paid as a result of the voluntary administration.

[52] The remaining consideration of $1.8 million was paid in OrotonGroup scrip.

7.8 Financial Position

The financial position of OrotonGroup as at 26 July 2014, 25 July 2015, 30 July 2016, 29 July 2017 (audited) and 24 February 2018 (unaudited and not in accordance with the Act) is summarised below.

Table 8: Consolidated financial position of OrotonGroup

As at $ million unless otherwise stated	26 July 2014 Audited	25 July 2015 Audited	30 July 2016 Audited	29 July 2017 Audited	24 February 2018 Unaudited
Debtors and prepayments	5.3	7.6	3.6	3.3	7.3
Inventories	27.6	37.7	30.7	35.5	23.0
Creditors and accruals	(18.7)	(18.8)	(12.3)	(16.3)	(19.0)
Net working capital	**14.2**	**26.6**	**22.0**	**22.5**	**11.4**
Equity accounted investment	0.0	-	-	6.8	7.3
Call option over TDE Pty Limited	-	-	-	0.0	0.0
Put option over TDE Pty Limited	-	-	-	(1.1)	(1.1)
Property, plant and equipment	11.1	15.3	10.8	5.3	4.6
Intangible assets	0.7	0.7	1.1	1.2	1.2
Receivable from Brooks Brothers	4.3	2.1	2.2	-	-
Deferred tax assets/(liability)	3.4	(0.2)	3.5	8.5	7.4
Derivative financial instruments (net)	(2.6)	12.6	(0.4)	(6.8)	(6.8)
Contingent consideration for TDE Pty Limited	-	-	-	(0.7)	(0.7)
Provisions	(4.4)	(6.3)	(6.3)	(11.7)	(5.1)
Total funds employed	**26.8**	**50.7**	**32.9**	**24.1**	**18.3**
Cash and cash equivalents	10.1	2.2	2.8	1.6	15.8
Total borrowings	-	(8.0)	-	(7.0)	(12.0)
Net borrowings	**10.1**	**(5.8)**	**2.8**	**(5.4)**	**3.9**
Net assets attributable to OrotonGroup shareholders	**36.9**	**44.9**	**35.7**	**18.7**	**22.2**
Statistics:					
Shares on issue at period end (million)	*40.9*	*40.9*	*40.7*	*42.0*	*42.0*
Net assets per share	*$0.90*	*$1.10*	*$0.88*	*$0.45*	*$0.53*
NTA[1] per share	*$0.88*	*$1.08*	*$0.85*	*$0.42*	*$0.50*
Gearing[2]	*-37.9%*	*11.5%*	*-8.6%*	*22.3%*	*-21.1%*

Source: OrotonGroup Annual Reports FY13 to FY17; Unaudited Management Accounts for the seven month periods to 25 February 2017 and 24 February 2018; KPMG Corporate Finance analysis.

Notes:

1. *NTA is net tangible assets, which is calculated as net assets less software intangibles.*
2. *Gearing is net borrowings divided by the sum of net borrowings and net assets.*

OrotonGroup's net assets declined by 58.4% from 25 July 2015 to 29 July 2017, mainly reflecting:

- the impairment of Gap and Oroton store assets in FY16 and FY17
- a reduction in the mark-to-market value of derivative financial instruments at 30 July 2016 and 29 July 2017 as the Australian dollar appreciated against the US dollar (such that year end spot rates exceeded hedge rates), and

- $8.0 million of onerous lease provisions at 29 July 2017 in relation to the Gap exit.[53]

Net assets increased slightly in the seven months to 24 February 2018 as a result of:

- seasonality of the business, with a substantial share of revenue generated over the Christmas and post-Christmas sales periods
- strong Oroton sales in November and December following the announcement that OrotonGroup had entered voluntary administration
- Gap closing down sales, and
- wind down of onerous lease and other provisions upon closure of Gap stores.

Assets on the balance sheet mainly include inventories (34.9% of total assets as at 24 February 2018). Furthermore, as discussed in Section 7.5 of this report, inventories fluctuate throughout the year depending on sales seasons and OrotonGroup's year-end (July) corresponds with a low point in its working capital requirements.

In regard to the other balance sheet items, we note:

- equity accounted investment of $7.3 million as at 24 February 2018 represents the investment in TDE
- property, plant and equipment mainly relates to fit-outs of leased stores. It increased in FY15 as a result of investment in new Gap stores and Oroton new concept stores, then declined as a result of the impairment of assets ($1.6 million in FY16 and $5.7 million in FY17). As a result of the planned closure of all Gap stores in FY18 and the anticipated future Gap losses, all Gap store assets and associated corporate assets of the Gap brand were fully impaired in the balance sheet at 29 July 2017
- intangibles relates only to software
- OrotonGroup uses forward foreign exchange contracts to hedge a portion of its exposure to exchange rates resulting from the purchase of inventories in US dollars. OrotonGroup's policy is to hedge 70% to 85% of anticipated transactions in US dollars for the subsequent 24 months. The derivatives balance as at 24 February 2018 has not been revalued to fair value. Westpac has provided an updated mark-to-market value of derivatives as at 27 February 2018 of ($4.7 million)[54]
- provisions as at 24 February 2018 include:
  - $2.7 million of employee benefits
  - $0.6 million of deferred lease incentives
  - $0.9 million of lease 'make good' provision
  - $0.9 million of fixed rental increases

OrotonGroup has disclosed a contingent liability as at 29 July 2017 in relation to guarantees to its subsidiaries in respect of the tenancy of 52 properties estimated at $27.3 million.

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[53] Provision with the respect to the onerous lease expenses for period from August 2017 to store closure in January 2018.

[54] Source: Report to Creditors, p.34

Net borrowings

In order to support growth and manage seasonal working capital requirements, OrotonGroup entered into a secured $40 million facilities agreement (Facilities) with Westpac in March 2015. The Facilities comprised an $8 million bank overdraft facility that was repayable and terminable on demand and an $18 million working capital facility and $14 million in trade finance facilities that were due for renewal on 17 March 2018. The Facilities were arranged with the general terms, conditions and covenants set and agreed from time to time. In FY17, the Facilities were reduced to $35 million, including a $4 million bank overdraft facility, $20 million working capital facility and $11 million trade finance facility.

On 20 June 2017, OrotonGroup advised that it had received up to $3 million credit support by Vicars Entities for its working capital facility with Westpac. The $3 million credit support arrangement expired on 31 July 2017, and was unutilised.

On 31 July 2017, OrotonGroup executed a facilities agreement to allow continuing use of its $35 million facility and an extension of maturity from 16 April 2018 to 5 October 2018 for the $31 million working capital and trade finance facilities. The $4 million bank overdraft facility continued to be repayable and terminable on demand. As part of this amendment, Vicars Entities entered into a put and call arrangement with Westpac to provide critical credit support to 16 April 2018. The conditions of this facilities were varied, prior to and post 29 July 2017 due to a potential default which was reset and an actual default which was promptly waived. The key terms of these arrangements are:

- the put element that would enable Westpac to transfer the working capital facility to Vicars Entities at face value upon an event of default or on 16 April 2018
- the call element that would enable Vicars Entities to purchase all of the Westpac facilities at face value any time until one month after 16 April 2018
- payment of a $1.5 million amendment fee from OrotonGroup to Westpac, and
- payment of a $1.5 million option fee from Westpac to Vicars Entities.

Upon the appointment of the Administrators, Westpac assigned to Manderrah all amounts owing to Westpac under the working capital facility and the security given in respect of the facility. Westpac remains the lender of the remainder of the facilities.

OrotonGroup's drawn borrowings are presented as follows.

Table 9: OrotonGroup drawn borrowings

$ million unless otherwise stated	30 July 2016	29 July 2017	24 February 2018	Expiration
Bank overdraft	-	-	-	Repayable and terminable on demand
Working capital advances	-	7.0	12.0	5 October 2018
Trade finance facilities	7.1	7.1	-	
Total interest bearing liabilities	**7.1**	**14.1**	**12.0**	

Source: Management

Of the available working capital facility, $12.0 million (net) was utilised as at 24 February 2018 (typically a relatively low inventory period). This represents the net of the amount drawn of $15.6 million and the $3.6 million of cash swept by Westpac.

OrotonGroup's cash balance as at 24 February 2018 was $15.8 million (after cash was swept). The increase (relative to 29 July 2017) is due to:

- higher than forecast revenue for Gap
- lower payables associated with the wind down of the Gap business, and
- as creditors have not been paid as a result of the voluntary administration. In particular, advances received in FY18 ($8.5 million) were only repaid to the extent of the $3.6 million cash swept (net impact of $4.9 million).

As at 24 February 2018, unpaid and estimated transaction costs associated with the voluntary administration and DOCA through to completion (including GST) were $5.5 million.

7.9 Capital structure

As at 27 November 2017, OrotonGroup had 41,975,077 shares on issue and 2,176 registered Shareholders.

OrotonGroup's investor base is predominantly Australian based. Retail investors (defined as holdings of up to 10,000 shares) account for approximately 8% of shares on issue. The top 20 registered Shareholders account for approximately 77% of shares on issue and primarily include private investors and companies (described below) as well as institutional nominees.

As at 27 November 2017, OrotonGroup had received notices from the following substantial Shareholders.

Table 10: Substantial Shareholder and Director's interest notices as at 27 November 2017

Substantial shareholder	Date of notice	Number of shares	Percentage interest[1]
Mr Ross Lane, Mr Robert Lane, Mr Tom Lane and Mrs Anna Hookway[2]	29 July 2017	8,931,166	21.28%
Mr James Vicars and controlled entities[3]	25 May 2017	7,629,920	18.18%
IOOF Holdings Limited	29 September 2017	3,517,905	8.38%
Gazal Corporation Limited and controlled entities	6 July 2017	3,083,349	7.35%
Spheria Asset Management Pty Limited	29 September 2017	2,922,523	6.96%

Source: ASX announcements.
Notes:
1. *As at date of last notification.*
2. *Source: OrotonGroup FY17 Annual Report. Parties entered into a Deed dated 21 October 2008 which requires them to act co-operatively with each other in relation to the consolidated entity's affairs. Under this deed as at 29 July 2017, 8,931,166 ordinary shares are beneficially owned by the parties or persons or entities associated with or controlled by them.*
3. *Source: Final Director's interest notice*

7.10 Share price performance

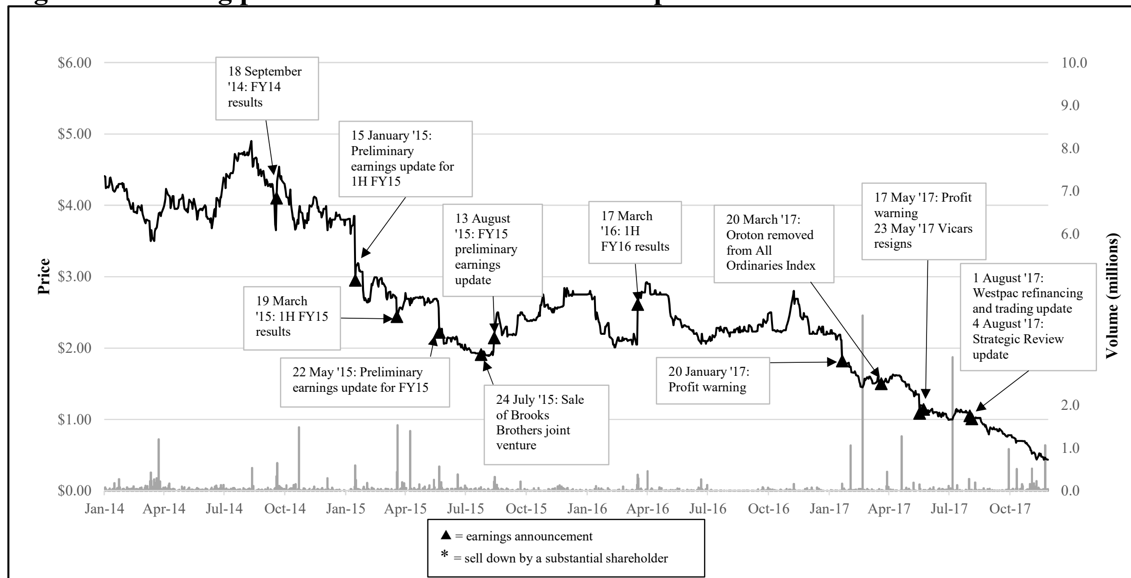
7.10.1 Recent market trading

The OrotonGroup share price was negatively re-rated following the expiration of the Ralph Lauren licence, declining by 18.3% (from $7.74 to $6.32) on the announcement on 17 August 2012 that the licence would not be renewed, and then further following the release in August 2013 of the FY14 profit guidance, which indicated that in the absence of additional brand licences or acquisitions, underlying EBIT would be reduced from around $35 million in FY13 to around $16 to $18 million in FY14.

The share price increased by 10% in the three days following the announcement that OrotonGroup had entered into discussions with Gap, Inc. before continuing its decline, reaching a low of $3.82 on 6 December 2013. It then traded broadly in the range of $3.50 to $4.90 until mid-January 2015.

The trading price and volume of OrotonGroup shares from 1 January 2014 to 27 November 2017 (the last trading day prior to the appointment of the Administrators) is illustrated as follows.

Figure 7: Trading price and volume of OrotonGroup



Source: S&P Capital IQ; KPMG Corporate Finance analysis.

The OrotonGroup share price declined from $3.85 in mid-January 2015 to reach a low of $1.84 on 24 July 2015 as a result of the following negative earnings announcements, declining as follows:

- by 23.4% to close at $2.95 on the announcement on 15 January 2015 of preliminary results for 1H FY15, which indicated that earnings were expected to be $2.5 million to $3.5 million lower than in the corresponding period in the prior year due to weaker Oroton sales (despite the brand repositioning strategy) and start-up costs associated with Gap and the Brooks Brothers Joint Venture
- by 10% on the announcement on 19 March 2015 of the financial results for 1H FY15, which indicated a $3.2 million decline in underlying EBIT (towards the high end of the decline indicated in the preliminary results announcement), and
- by 19.7% over the three days around the 22 May 2015 announcement of the preliminary earnings results for FY15, which indicated that the Oroton brand continued to suffer as a result of prior years' discounting and continued losses from Gap and the Brooks Brothers Joint Venture.

From July 2015 until January 2017, the OrotonGroup share price traded broadly in the range of $2.10 to $2.80, with brief increases on:

- announcement on 24 July 2015 of the sale of the Brooks Brothers Joint Venture
- release of the FY16 preliminary earnings update in August 2015, and
- release of the financial results for 1H FY15 in March 2016.

From 20 January 2017, the OrotonGroup share price declined steeply as a result of the following:

- profit warning on 20 January 2017 which indicated that OrotonGroup LFL sales were down 10% for the year-to-date. Despite this, LFL sales for the core Oroton brand first retail and department store concessions (excluding discontinued categories) was up 11%, likely driven by the implementation of the brand repositioning strategy
- announcement on 10 March 2017 that OrotonGroup would be removed from the All Ordinaries Index[55], effective 20 March 2017
- profit warning on 17 May 2017 which indicated that the core Oroton brand also struggled and announcement that OrotonGroup had engaged Moelis to conduct a strategic review and assess the company's options. In particular:
  - soft trading conditions in the key mid-season sale in April 2017 had continued the decline in earnings trend
  - in 1H FY17, revenue was down 10% and underlying EBITDA was down 44%
  - third quarter year-to-date revenues (including April 2017) were down 11%
  - poor and competitive market conditions in the April 2017 mid-season sale were expected to continue in the more important end of season sale in June/July 2017
  - underlying EBITDA for FY17 was re-forecast to between $2 million and $3 million (down approximately $10 million on the prior year) as a result of:
    - actual and forecast lower sales volumes in sale periods and Oroton factory outlets
    - increased Gap losses
    - discontinued Oroton categories, and
    - a decline in the hedge buying rate
- announcement of the resignation of director and major Shareholder, Mr James Vicars on 23 May 2017
- announcement on 20 June 2017 that OrotonGroup had commenced a formal process to explore certain strategic options. Trading update reaffirmed previous guidance for underlying EBITDA
- announcement on 1 August 2017 that the terms of the Westpac Facility had been amended to allow for the continuing use of the $35 million and an extension of maturity to October 2018 from April 2018. In addition, it provided a trading update where previous guidance for underlying EBITDA was reaffirmed
- update of Strategic Process on 4 August 2017 and announcement that OrotonGroup would exit the Gap franchise, and
- sell down by a number of substantial Shareholders.

The OrotonGroup share price closed at $0.435 on 27 November 2017, the last trading day before the announcement that the Administrators had been appointed.

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[55] Comprises top 500 companies listed on the ASX

7.10.2 *Liquidity*

An analysis of the volume of trading in OrotonGroup shares, including the VWAP for the period up to 27 November 2017 (the last trading day before the appointment of the Administrators) is set out as follows.

Table 11: Volume of trading in OrotonGroup shares

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $ '000	Cumulative volume 000	% of issued capital	Average number of trades per day
Period ended 27 November 2017[1]							
1 day	0.44	0.45	0.45	17.7	39.4	0.1%	6.0
1 week	0.44	0.48	0.46	538.9	1,162.0	2.8%	5.4
1 month	0.42	0.65	0.49	1,399.6	2,829.0	6.7%	23.0
3 months	0.42	0.91	0.61	3,281.3	5,360.5	12.8%	13.1
6 months	0.42	1.18	0.81	8,528.8	10,488.3	25.0%	14.9
12 months	0.42	2.44	1.16	23,111.4	19,963.5	47.6%	14.4

Source: IRESS; KPMG Corporate Finance analysis.
Note 1: 27 November 2017 represents the last trading day prior to the appointment of the Administrators.

During the 12 month period to 27 November 2017, 47.6% of issued shares were traded, however, a majority of this trading relates to the sell down by substantial Shareholders and the issue of shares to the TDE Founding Shareholders as part of the consideration for OrotonGroup's investment in TDE.[56] Consequently, despite the relatively high trading volume, the number of transactions per day was relatively low (an average of 14 per day). Furthermore, OrotonGroup had a limited free float (around 53%[57]). Together, these factors indicate that OrotonGroup shares were relatively illiquid.

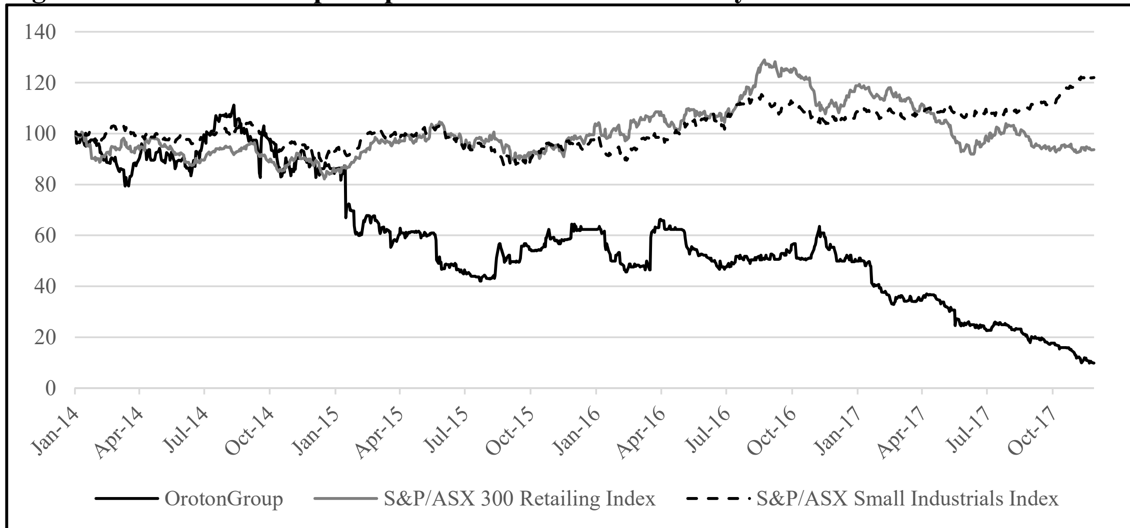
7.10.3 *Relative share price performance*

OrotonGroup was a member of the All Ordinaries Index up until 20 March 2017 and has not been a member of any other index. However, in order to provide an indication of relative performance, KPMG Corporate Finance has considered the performance of OrotonGroup shares since 1 January 2014 relative to the S&P/ASX Small Industrials Index and the S&P/ASX 300 Retailing Index (rebased to 100).

[56] On 4 April 2017, OrotonGroup issued 1,262,068 shares to the TDE Founding Shareholders.

[57] Free float is calculated as 100% less interests held by corporate Shareholders (7.35% held by Gazal Corporation Limited), private stakeholders with greater than 5% interest (18.18% held by Vicars Entities) and directors, employees and related parties with greater than 5% (21.28% held by Mr Ross Lane, Mr Robert Lane, Mr Tom Lane and Mrs Anna Hookway)

Figure 8: Relative share price performance from 1 January 2014 to 27 November 2017



Source: IRESS; KPMG Corporate Finance analysis.
Note: Rebased to 100.

The OrotonGroup share price broadly tracked the indices until mid-January 2015, then underperformed until July 2015 as a result of the negative earnings announcements. It then broadly tracked the indices before underperforming throughout 2017. During 2017, OrotonGroup significantly underperformed both indices, reflecting its financial difficulties, however, both OrotonGroup and the S&P/ASX Retailing Index underperformed the S&P/ASX Small Industrials Index reflecting weak retail industry conditions relative to the broader economy.

8 Valuation of OrotonGroup

8.1 Summary of value

Background

Under the DOCA and pursuant to the proposed orders being sought under Section 444GA of the Act, all OrotonGroup shares are to be transferred to Manderrah in exchange for Manderrah paying $5.25 million (Top-up Cash Amount) into a Creditors' Trust Account to be available (along with the Oroton Companies' Available Cash and Excess Cash as at 24 February 2018) to pay all of the priority and secured creditor claims, a portion of unsecured creditor claims of the Oroton Companies (other than Mr James Vicars and controlled entities) and costs associated with the voluntary administration and DOCA. Shareholders are to receive nil consideration.

As such, in order to assist the Court in determining whether Shareholders are unfairly prejudiced, and assist ASIC in its decision as to the granting of technical relief from the takeover provisions under the Act, KPMG Corporate Finance has been requested to provide a valuation of OrotonGroup's equity.

The Valuation Date is 24 February 2018 since this is the date of the assessment of cash to be paid into the Creditors Trust. However, in order to fairly assess whether Shareholders are materially prejudiced we have used the most recent available financial and other information in relation to the business.

KPMG Corporate Finance has assessed the value of OrotonGroup's equity as the following bases:

- a going concern basis, which assumes that OrotonGroup will continue its operations for the foreseeable future and will be able to realise its assets and discharge its post administration liabilities in the normal course of business, and
- a distressed basis, which reflects the situation faced by OrotonGroup whereby it does not have sufficient funding to pursue its operations for the foreseeable future.

Going concern valuation

KPMG Corporate Finance has assessed OrotonGroup's equity on a going concern basis to have nil value.

The value of OrotonGroup's equity has been determined as follows:

- assessing the value of 100% of OrotonGroup's operating business on a 'going concern'[58], control basis
- deducting secured creditors (net) as at 24 February 2018 and the full amount of the Deed Administrators' assessment of priority creditors (employees) and landlord and other unsecured creditors of the Oroton Companies (together, Creditors)[59]
- adding cash as at 24 February 2018 (after deducting the costs of the voluntary administration and DOCA), and
- adding KPMG Corporate Finance's assessment of non-operating assets (net).

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[58] Refer to Section 5.2 of this report for a definition of 'going concern'.

[59] In treating creditors in this way, we have not deducted creditors that are paid within the FY18 and FY19 Forecasts.

When assessing the value of 100% of OrotonGroup's operating business, we have considered those synergies and benefits that would generally be available to a pool of potential purchasers. We have not included any 'special value', or the value of synergies specific to a particular acquirer (refer to Section 8.2.3 of the report).

The primary methodology adopted in the valuation of OrotonGroup's operating business is a DCF analysis. The value derived from the DCF analysis has been cross-checked using multiples of EBITDA and EBIT for transactions involving retailers of clothing, footwear and accessories as well as comparable listed companies within the industry. The valuation of OrotonGroup's operating business is set out in Section 8.3 of this report.

In determining the amount of Creditors, we have adopted the Deed Administrators' assessment of claims, which were determined for the purposes of the second creditors' meeting, as these represent the best guide as to OrotonGroup's liabilities as a consequence of the Administration. To the extent that actual claims are determined to be either higher or lower than the assessed claims, then the implied value of equity would be either lower or higher.

KPMG Corporate Finance has assessed the value of 100% of OrotonGroup's operating business on a going concern basis to be in the range of $15 million to $17 million. After deducting the full amount of Creditors and adding cash as at 24 February 2018 (after deducting costs of the voluntary administration and DOCA) and other non-operating (net), the implied value of equity is negative (($9.1) million to ($2.2) million) as set out in the following table.

Table 12: OrotonGroup summary of value – going concern basis

	Section reference	Valuation range	
		Low	High
Value of 100% of OrotonGroup's operating business	**8.3**	**15.0**	**17.0**
Non operating assets/(liabilities) (net)	8.4	0.9	0.9
Enterprise value		**15.9**	**17.9**
Creditors:			
Priority creditors (employees)	8.5	(1.4)	(1.4)
Net secured creditors	8.5	(17.5)	(17.5)
Landlords	8.5	(12.3)	(8.4)
Other unsecured creditors	8.5	(4.0)	(3.0)
Total Creditors		**(35.3)**	**(30.4)**
Cash:			
Cash	7.8	15.8	15.8
Less: costs of the administrations	7.8	(5.5)	(5.5)
Implied value of 100% of the equity of OrotonGroup		**(9.1)**	**(2.2)**
Assessed value of 100% of the equity of OrotonGroup		**nil**	**nil**

Source: KPMG Corporate Finance analysis.

Based on our analysis in the table above, OrotonGroup's operating business would need to have a value of at least $19.2 million in order for equity to have a positive value after taking into account the full amount of the Creditors net of Excess Cash, cash in international operations and non-operating assets (net).

In forming our opinion as to the value of OrotonGroup's operating business, it is important to recognise that it operates in a challenging retail environment (refer to Section 6 of this report). The retail category on which the Oroton brand is mainly focused (i.e. handbags, wallets and pouches) has attracted a large number of domestic and international market participants in direct competition with OrotonGroup, including Coach, Furla, Marc Jacobs, Kate Spade and Michael

Kors. These competitors frequently offer substantial discounts in order to gain market share, which places pressure on Oroton brand sales and gross margins. Furthermore, whilst historically these competitors have focused on first retail and concession stores, within the last two to three years they have moved into factory outlets (where OrotonGroup derives a majority of earnings).

These competitors have a number of advantages in that they are able to leverage their international platforms (e.g. IT systems and international marketing) to improve brand presence and sales with minimal incremental investment. Their larger production runs enable them to take advantage of volume discounts offered by suppliers and take priority with manufacturers, reducing lead times. OrotonGroup's smaller production runs result in a longer production lead time and reduce its ability to take advantage of volume discounts with manufacturers. It is within this environment that there has been a 2.8% decline in LFL Oroton brand sales over the past three years and seven months (refer to Section 7.2.5 of this report).

OrotonGroup's brand repositioning strategy has resulted in gross margin improvement for the Oroton brand (from 51.9% in FY14 to 53.7% in FY17), however, the depreciation of the Australian dollar over this period has more than offset this margin improvement, resulting in a decline in Oroton brand net margin from 62.3% in FY14 to 57.6% in FY17. Although hedging has delayed the impact of adverse foreign exchange movements, further declines are anticipated for FY18 as hedges are mostly out-of-the money.

Compounding revenue and net margin declines is that a substantial share of OrotonGroup's costs are fixed (or subject to fixed price increases), including store rents (which increase by CPI plus a margin in accordance with long term rental agreements) and sales staff salaries (which are set by the Modern Award). This combination of a decline in Oroton brand sales while fixed costs have remained relatively stable has resulted in significant margin pressure (refer to Sections 7.4 and 7.5 of this report).

Offsetting this is that as part of the DOCA, Manderrah has been able to negotiate rent savings which, for the purposes of our valuation, we have assumed would be available to other purchasers. Further, as part of the Strategic Review, a range of potential operational efficiencies and structural changes were identified across the head office and Oroton brand as part of a wider review and as a result of the Gap franchise closure. However, additional costs are anticipated, including an investment of around $3 million in FY18 and FY19 in relation to the Oroton brand strategy, digital transformation and IT roadmap.

Taking into account these different factors, KPMG Corporate Finance has developed a range of scenarios for OrotonGroup in our DCF analysis in order to assess a value of the OrotonGroup. The selected value range overlaps with the Base Case scenario. The Base Case scenario assumes that:

- Oroton brand LFL sales continue to decline in FY18 (noting that FY18 earnings includes 9 months of actual results), then increase for all distribution categories (other than online[60]) in FY19, before increasing by 3.0% (which is above the industry forecast of 2.2%) as market share is stabilised
- gross margin (constant currency basis) increase from 53.7% in FY17 to 56.7% in FY19 and is maintained in subsequent years (despite the reduced investment in brand from FY20 and a highly competitive industry)

[60] Online sales were unusually high following the announcement of the voluntary administration. Management has normalised FY19 online sales.

- there are no changes to exchange rate forecasts (positive or negative)
- OrotonGroup is able to optimise its working capital needs
- OrotonGroup achieves a range of potential operational efficiencies and structural changes across the head office and Oroton brand
- a typical acquirer is able to negotiate the same or similar rent savings to those negotiated by Manderrah, and
- an acquirer would attribute some value to the Australian tax losses.[61]

Notwithstanding that we consider this to be our Base Case, it should be recognised that there is substantial risk to a number of these assumptions particularly around sales and gross margin given the competitive environment and net margin as a result of potential movements in foreign exchange rates.

Distressed valuation

KPMG Corporate Finance has also considered the value of the equity in OrotonGroup on a distressed basis, which takes into account the situation faced by OrotonGroup whereby it does not have sufficient funding to pursue its operations for the foreseeable future. In considering a distressed value we have considered the following approaches:

- distressed sale basis, and
- liquidation basis.

A distressed sale basis assumes that the business will be sold as a going concern, and exceeds the value of the assets that comprise the businesses on a liquidation basis (as assessed by the Deed Administrators), noting however, that the seller would likely be considered in such a situation to be an 'anxious' seller within the context of the definition of fair value (refer to Section 5.2 and Section 8.2.1 of this report).

In contrast, a liquidation basis assumes the operations of OrotonGroup will cease to exist and its assets will be liquidated to pay outstanding creditor balances and other liabilities. OrotonGroup does not have significant tangible assets for which material value could be realised (refer to Section 7.8 of this report). OrotonGroup is likely to only recover a portion of the book value of its inventory in a liquidation scenario and would likely realise relatively limited value for its store assets or other tangible assets. In addition, in their Report to Creditors, the Deed Administrators have assessed priority and landlord creditors to be higher on a liquidation basis than under the DOCA (which reflects a distressed sale basis).

For that reason, we have assumed that the more realistic scenario would be a distressed sale basis (which assumes that secured creditors would fund ongoing trading to the extent necessary to effect the sale on a going concern basis) rather than a 'break up' sale.

On a distressed sale basis, we have considered an increase in the discount rate to take into account the existing distressed situation whereby a potential acquirer would seek a higher rate of return to reflect the increased risk. In this situation, it is likely that debt and equity holders would require a higher cost of capital (at least 5% to 10% higher) than would be required on a going concern basis. KPMG Corporate Finance has discounted the cash flows in the Base Case

[61] KPMG Corporate Finance has assumed that an acquirer would risk adjust tax losses by between 40% of 60% of the balance.

using a WACC in the range of 16% to 22% (refer to the table below). This results in a reduction in the value of the operating business. Accordingly, on a distressed sale basis, the assessed value of OrotonGroup's equity is nil (refer to Section 8.6 of this report).

Table 13: OrotonGroup summary of value - distressed sale basis

	Section reference	Valuation range	
		Low	High
Value of 100% of OrotonGroup's operating business		**7.0**	**10.0**
Non operating assets/(liabilities) (net)	8.4	0.9	0.9
Enterprise value		**7.9**	**10.9**
Creditors:			
Priority creditors (employees)	8.5	(1.4)	(1.4)
Net secured creditors	8.5	(17.5)	(17.5)
Landlords	8.5	(12.3)	(8.4)
Other unsecured creditors	8.5	(4.0)	(3.0)
Total Creditors		**(35.3)**	**(30.4)**
Cash:			
Cash	7.8	15.8	15.8
Less: costs of the administrations	7.8	(5.5)	(5.5)
Implied value of 100% of the equity of OrotonGroup		**(17.1)**	**(9.2)**
Assessed value of 100% of the equity of OrotonGroup		**nil**	**nil**

Source: KPMG Corporate Finance analysis.

8.2 Valuation Methodology

8.2.1 Overview

Our going concern valuation of OrotonGroup has been prepared on the basis of 'fair value'. The generally accepted definition of fair value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Fair value excludes 'special value', which is the value over and above value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

In addition, our 'going concern' valuation assumes that OrotonGroup is able to consider alternative options and will continue its operations in the foreseeable future. RG 111.15 states that "the fair value of the target securities should be determined on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid (e.g. an orderly realisation of the target's assets)". That is, an assessment of fair value should not include consideration of a company's financial distress.

In seeking to determine the fair value of the OrotonGroup on a 'going concern' basis it is necessary to deviate from the standard definition as OrotonGroup was unable to discharge its liabilities in the normal course of business. In this respect we have valued the operating business on a 'going concern' basis and then deducted the full amount of Creditors and added Excess Cash, cash in international operations and non-operating assets (net).

Our report has also considered the value of the OrotonGroup shares on a distressed basis as this is a potential situation faced by Shareholders. In taking into account financial distress, we have considered that the concept of fair value no longer exists, as the seller cannot be considered to be 'not anxious'. As OrotonGroup does not have significant tangible assets for which material value could be realised, we have assumed the operating business would be sold as a going concern, however, a potential acquirer would seek a higher level of return to reflect the increased risk.

Fair value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of maintainable earnings (Capitalised Earnings)
- DCF analysis
- estimated net proceeds from an orderly realisation of assets (Net Assets), and
- current trading prices on the relevant securities exchange.

These methodologies are discussed in further detail in Appendix 3. Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is often adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as Capitalised Earnings and DCF are commonly used to determine value at either an enterprise or equity level as they reflect 'going concern' values, which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradeable or asset rich, Net Assets is typically adopted as there tends to be minimal goodwill, if any. For listed companies, the trading price typically provides an indication of the fair value of a minority interest where trading is liquid and no takeover speculation is evident.

8.2.2 *Selection of methodology*

The rationale for the selection of the valuation methodologies is set out below.

DCF methodology

A DCF approach was adopted as our primary methodology for OrotonGroup's operating business. This approach allows for key assumptions to be modelled (e.g. LFL sales growth, closure of loss making Oroton brand stores, gross margin (constant currency basis), impact of the A$/US$ exchange rate on net margin and inventory and seasonality of sales and working capital requirements) and for a range of scenarios to be analysed. The DCF analysis was based on a long-term financial model developed by KPMG Corporate Finance on the basis of a Cash Flow Model provided by OrotonGroup that was developed in conjunction with Moelis as part of the Strategic Process, updated to reflect the FY18 and FY19 Forecasts and KPMG Corporate Finance's judgement on certain matters.

The FY18 and FY19 Forecasts were prepared based on the current views and assumptions of Management as well as information known to them as at 1 May 2018, however, Management has advised that the OrotonGroup future brand strategy is not defined and would be expected to impact these forecasts. Management notes that the FY18 and FY19 Forecasts are subject to various risks and uncertainties which are beyond their control. Management cannot provide any

assurance that the FY18 and FY19 Forecasts will be representative of the results that will actually be achieved.

KPMG Corporate Finance has relied upon the FY18 and FY19 Forecasts in preparing its report and Management remains responsible for all aspects of these forecasts. KPMG Corporate Finance has undertaken various enquiries in relation to the FY18 and FY19 Forecasts, including holding discussions with Management in regard to the key commercial assumptions. We have reviewed the key commercial assumptions in the context of current economic (e.g. foreign exchange forward curve), financial and other conditions (e.g. industry, contractual). KPMG Corporate Finance is of the view that the FY18 and FY19 Forecasts have been prepared on a reasonable basis and, therefore, are suitable as a basis for our valuation. In making this assessment, we have taken into account the following:

- the FY18 and FY19 Forecasts were updated based on actual results to 28 April 2018
- the forecasts exclude the Gap business (from February 2018) and include the international business
- forecasts were prepared on a store-by-store basis and at a consolidated level, on a monthly basis
- the forecasts reflect the latest expectations as to the closure, refurbishment or relocation of Oroton brand stores
- forecasts include rent savings based on the reductions negotiated by Manderrah (on the assumption that any acquirer could achieve the same or similar savings) and rent savings as a result of store closures after which rents increase in accordance with lease agreements
- sales staff salaries increase in accordance with expected growth in the Modern Award
- $0.6 million of public company costs are saved in the FY19 Forecast
- operational efficiencies and structural changes identified across head office and the Oroton brand as part of a wider review and as a result of the Gap franchise closure. We note that OrotonGroup does not yet have detailed plans in place for achieving some of the other head office and brand cost savings. This creates a risk that savings will be 'leaked' (e.g. initiatives are cancelled) or new initiatives are launched. This is consistent with studies of the quantum of savings achieved for a range of companies.[62] Savings in relation to the relocation of the distribution centre from Hong Kong to Sydney in June 2017 have been offset by additional distribution expenses in other areas.

KPMG Corporate Finance has adjusted the FY18 and FY19 Forecasts to remove the assumed impact of hedging and reflect the current A$/US$ forward curve as at May 2018.[63]

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[62] M. Bucy, T. Fagan and C. Piaia, "Tree Tips for Keeping Transformations on Track", *McKinsey Quarterly, 2017 Number 2*. Study considered 18 performance transformations in 13 organisations across a range of industries in the Asia-Pacific. The study of transformation programs undertaken by organisations found that of initiatives identified, the cumulative value leakage was 69%.

[63] The forecasts reflected a forward curve of around A$1=US$0.72, then assume the use of derivatives. As at May 2018, the forecast curve was fairly flat at around A$1=US$0.75.

In regard to the Cash Flow Model:

- the Cash Flow Model was prepared by Management and Moelis in June 2017, following the announcement of the Strategic Process, to explore certain strategic options which may have involved a sale, refinancing of debt or recapitalisation of the company. The model was prepared on a store by store basis. Earlier iterations were provided to various parties for purpose of a potential refinancing, sale or recapitalisation of the business. The assumptions have been refined a number of times based on updates to OrotonGroup's financial performance, the outcomes arising from the Strategic Review and the outlook for the market
- KPMG Corporate Finance has adjusted the model based on discussions with Management, independent forecasts of growth prospects for the industry and KPMG Corporate Finance's views of the market, as well as our understanding of the potential impact of OrotonGroup's strategic initiatives and the Gap exit. In particular:
  - the Cash Flow Model has been updated to reflect the latest actual financial performance for OrotonGroup (including the financial position as at 24 February 2018) and the FY18 and FY19 Forecasts (with the impact of hedging removed and the May 2018 forward exchange rate curve adopted)
  - assumptions for FY20 and beyond have been revised to reflect assumptions that in KPMG Corporate Finance's opinion, better reflect the assumptions that a purchaser may consider appropriate. In particular:
    - revenue growth is consistent with (or above) independent forecasts for the industry, and exceeds historical growth achieved by the Oroton brand
    - gross margin is maintained at FY19 levels
    - foreign exchange rates are based on the forward curve as at May 2018
    - capital expenditure and working capital requirements are consistent with requirements across the industry
    - renegotiated rent, planned operational efficiencies, public company cost savings which are fully reflected in FY19 are maintained in subsequent years
  - a portion of expenses are contracted under agreements that specify fixed increases (e.g. store leases) or are covered by the Modern Award (e.g. sales staff salaries) and, therefore, are relatively stable and predictable
  - the closure of loss making stores is assumed to occur (as a rational investor would do so), however, hypothetical assumptions (e.g. opening of yet-to-be-identified new stores with an assumed level of profitability) have been excluded
  - in addition, where significant uncertainty exists (e.g. revenue growth, gross margin, foreign exchange rates), KPMG Corporate Finance has developed scenarios to reflect a range of potential outcomes.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results that will actually be achieved during the forecast period. Any variations in the forward-looking financial information may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time.

Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

Capitalised Earnings methodology

A Capitalised Earnings methodology was adopted as a cross-check methodology. This method is appropriate for businesses with a long operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. Although there is sufficient market evidence available from which to calculate meaningful multiples, cyclical and structural trends in the industry as well as factors specific to OrotonGroup (e.g. ongoing closure of loss making Oroton stores as leases expire and the seasonality of sales and working capital requirements) means that it is difficult to apply this methodology as a primary methodology to value OrotonGroup.

A Capitalised Earnings approach can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT and net profit after tax. The choice between parameters is usually not critical and should give a similar result. EBITDA is commonly used where differences in depreciation or amortisation policies adopted by market participants can make comparisons between companies difficult.

In some cases, EBIT multiples may be considered a better measure of underlying free cash flows as they provide a more meaningful benchmark than EBITDA multiples when taking into account the capital intensity of different businesses. OrotonGroup's depreciation and amortisation, which may be used as a proxy for capital expenditure, represent a substantial portion (between 39% and 161%) of EBITDA over the last three financial years, thereby significantly reducing free cash flows, and are an important consideration when looking at comparable evidence. Therefore, we have placed greater reliance on multiples of EBIT as a cross-check in valuing OrotonGroup's consolidated operating business.

Net Assets

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). Such an approach does not capture growth potential or internally generated intangible value associated with the business and consequently, has not been applied.

8.2.3 *Control premium*

Consistent with the requirements of RG 111, we have assumed 100% ownership in valuing OrotonGroup and, therefore, our valuation is inclusive of a premium for control. More specifically:

- when assessing the value of 100% of OrotonGroup, we have considered those synergies and benefits which would generally be available to a pool of potential purchasers. We have not included any 'special value', or the value of synergies specific to a particular acquirer (refer to Section 5.2 of the report)
- a number of potential strategic and financial buyers of 100% of OrotonGroup would be able to save $0.6 million of OrotonGroup's public company costs and, therefore, these costs have been included in the forecasts utilised in the DCF approach
- an acquirer that is engaged in retailing could potentially save a range of other costs (e.g. head office costs and warehouse costs), however, there is a limited number of acquirers that could achieve these savings. In any event, the forecasts include the impact of potential

operational and structural changes across head office and the Oroton brand as part of a wider review and as a result of the Gap franchise closure, as well as rent savings (on the assumption that an acquirer could achieve similar reductions to those negotiated by Mr. James Vicars) and consequently, the ability to achieve further cost savings is considered to be limited

- we have specifically considered a premium for control when assessing our Capitalised Earnings based cross-check. Multiples applied in a Capitalised Earnings methodology are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated in such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

8.3 *Valuation of OrotonGroup operating business on a going concern basis*

8.3.1 *Discounted cash flow analysis*

The DCF analysis was based on the Cash Flow Model described in Section 8.2.2 above. The DCF analysis projects nominal, after tax cash flows from 25 February 2018 to 30 July 2022, a period of four years and five months. A terminal value is calculated by capitalising net after tax cash flows based on a perpetual growth assumption, utilising the Gordon Growth Method and a terminal growth rate of 3%. Ungeared, after tax cash flows are discounted by a weighted average cost of capital (WACC) in the range of 11.0% to 12.0% (refer to Appendix 4). A corporate tax rate of 30% has been utilised, however, the DCF analysis takes into account the benefit of using existing carried forward tax losses from OrotonGroup's domestic operations[64] as well as any tax losses generated in the forecast period.

The key assumptions underlying the Base Case are:

- the closure of loss making stores is assumed to occur on expiration of leases (as a rational investor would do so), however, hypothetical assumptions (e.g. opening of yet-to-be-identified new stores with an assumed level of profitability) have been excluded
- LFL sales decline by 1.8% in FY18 (noting that earnings in FY18 include 9 months of actual results) and by 2.3% in FY19[65]. From FY20, LFL sales increase by 3.0% per annum for all distribution channels which is above independent industry forecasts (refer to Section

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[64] Tax losses within OrotonGroup's international operations have not been included on the basis that it is unlikely that an acquirer would attribute any value to them. KPMG Corporate Finance has assumed that an acquirer would risk adjust tax losses by between 40% of 60% of the balance.

[65] LFL sales decline in FY19 reflects growth in 'bricks and mortar' categories, offset by decline in online sales as online sales in FY18 were unusually high as a result of a substantial boost in online sales on announcement of the voluntary administration.

6 of this report), and substantially exceeds the 2.8% average decline for the Oroton brand over the last three years and seven months (refer to Section 7.2.5 of this report)

- overall gross margin (constant currency basis) increases from 53.7% in FY17 to 56.7% in FY19 as a result of the brand repositioning strategy, after which store-by-store gross margins remain constant at FY19 levels, however, overall gross margin declines slightly due to the continued closure of loss making first retail stores (which have a higher gross margin than factory outlet and concession stores) throughout the forecast period
- foreign exchange rates are based on the current forward curve as at May 2018(relatively flat at around A$1=US$0.75)[66]
- $0.6 million of public company costs are saved from FY19
- operational efficiencies and structural changes result in cost savings
- forecasts include rent savings consistent with the reductions negotiated by Manderrah (on the assumption that any acquirer could achieve the same or similar savings), after which rents increase in accordance with lease agreements
- sales staff salaries increase in accordance with expected growth in the Modern Award
- working capital and capital expenditure to sales ratios are consistent with the requirements of peers that are of similar scale, and
- an acquirer would attribute some value to Australian tax losses.[67]

Sensitivity analysis

The Base Case produces a NPV range for OrotonGroup's operating business of $14.8 million to $17.0 million. KPMG Corporate Finance has analysed the sensitivity of the NPV outcomes under the Base Case to changes in the following variables:

- LFL revenue growth from FY20: +/- 0.5%
- gross margin (constant currency basis) from FY20: +/- 0.5%
- A$/US$ exchange rates from 1 May 2018: +/- 0.5%
- rent and sales staff salaries growth from FY20: -/+ 0.5%
- other expenses growth from FY20: -/+ 0.5%

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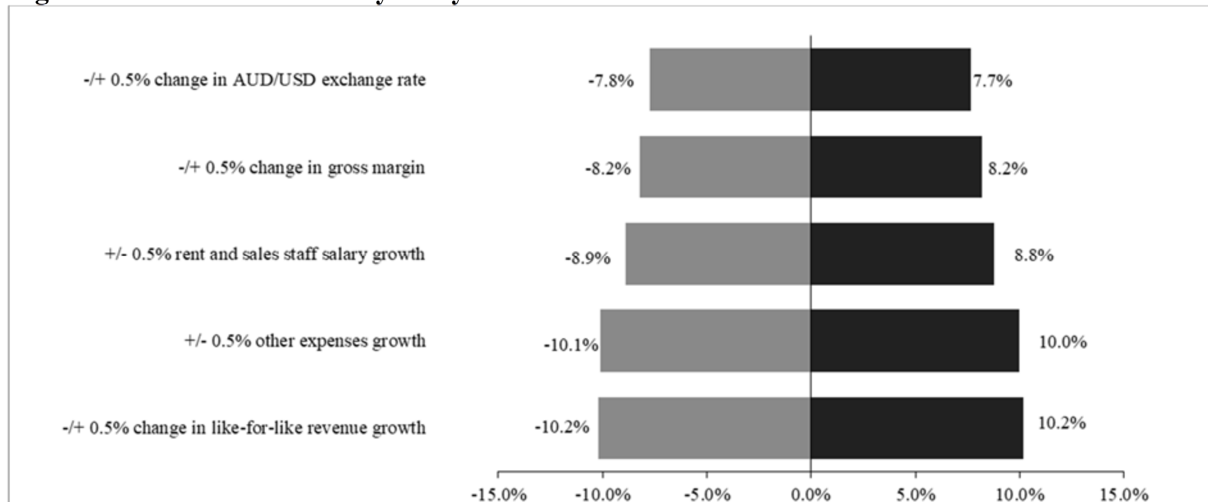
[66] Source: Bloomberg, KPMG Corporate Finance analysis

[67] KPMG Corporate Finance has assumed that an acquirer would risk adjust tax losses by between 40% of 60% of the balance.

The output of the sensitivity analysis is summarised below:

Figure 9: Base Case sensitivity analysis



Source: KPMG Corporate Finance analysis.

The chart above highlights the sensitivity of NPV outcomes to selected movements in a range of commercial assumptions. The analysis indicates that:

- NPV is reasonably sensitive to changes in LFL sales growth as a result of changes in sales volume. OrotonGroup has a relatively low level of operating leverage (proportion of costs that are fixed) which limits the sensitivity of NPV to changes in LFL sales growth
- NPV is also sensitive to fluctuations in gross margin (constant currency basis) which could occur as a result of changes in sales prices or US$ inventory costs
- NPV is also sensitive to the changes in the A$/US$ exchange rate, which impacts net margin. This is because OrotonGroup buys 100% of its inventory in US dollars and sells the products to customers in Australian dollar. Therefore, fluctations in the A$/US$ exchange rate will have a material effect on the NPV of OrotonGroup. The impact of hedging has not been included in the forecasts as the mark-to-market value of the derivatives as at 24 February 2018 is included in the assessment of secured creditors under the DOCA. In any event, most derivatives are out-of-the money at prevailing exchange rates, and
- NPV is also sensitive to movements in rent and sales staff salaries as well as movements in other fixed operating expenses (each of which comprises approximatey half of fixed costs). However, rental expenses are fixed (based on lease agreements) and sales staff salaries are set by the Modern Award. Consequently, substantial movements in these expenses is considered to be unlikely.

As illustrated above, small changes in certain assumptions (particularly revenue growth) can have a disproportionate impact on the value of OrotonGroup. In addition, there are inherent uncertainties about future events and a range of potential outcomes for key assumptions.

Scenario analysis

KPMG Corporate Finance has developed a range of scenarios for OrotonGroup's operating business in order to illustrate the impact on value of potential changes in key variables, including:

- ***higher or lower LFL sales growth**:* the model assumes that from FY20, LFL revenue growth for Oroton brand stores will be greater than the industry forecast of 2.2%. Higher LFL revenue growth may result from higher than forecast industry growth and/or an increase in OrotonGroup's market share (e.g. further investments in the Oroton brand or reductions in the level of competition), while lower LFL revenue growth may result from lower than forecast industry growth and/or a decline in OrotonGroup's market share (e.g. as a result of loss of brand momentum or continued competitive pressures). Scenario B assumes LFL revenue growth from FY20 of 4.0% and Scenario C assumes LFL revenue growth of 2.0%.

  Given the historical performance of the Oroton brand (average LFL decline of 2.8% over the past three years and seven months), it is not unrealistic for the LFL revenue growth to be negative. Scenario D assumes a LFL revenue decline of 2.0%.

- ***higher or lower gross margin (constant currency basis)**:* the forecasts assume gross margin increases from 53.7% in FY17 to 56.7% in FY19, then remains flat. Further increases in gross margin from FY20 could occur as a result of increases in prices (e.g. due to less discounting of the Oroton brand products) or decreases in inventory costs (e.g. if OrotonGroup is able to enter into more favourable agreements with its suppliers). An increase in gross margin from FY20 is considered unlikely since the forecasts do not include substantial investment in the Oroton brand from FY20 and OrotonGroup's relatively small scale reduces its negotiating position with suppliers.

  Conversely, a decrease in gross margin from FY20 may occur as a result of OrotonGroup discounting products in response to competitive pressures or as a result of higher inventory costs (e.g. if suppliers demand higher US dollar prices). There is a risk that as additional investment in the brand ceases from FY20, competitive pressures result in OrotonGroup's gross margin declining to historical levels (Scenario E).

- ***appreciation or depreciation of Australian dollar:*** foreign exchange rates in the cash flows are based on the forward curve as at May 2018 (relatively flat at around A$=US$0.75). An appreciation of the Australian dollar would reduce Australian dollar purchasing costs for OrotonGroup, thereby increasing net margin, while a depreciation of the Australian dollar would increase Australian dollar purchasing costs, reducing net margin. Over the last five years, the A$/US$ exchange rate has fluctuated between A$1=US$1.10 and A$1=US$0.69[68]. An appreciation of the Australian dollar from A$1=US$0.75 to A$1=US$0.78 is equivalent to an increase in net margin of 3.0% (Scenario F) and a depreciation of the Australian dollar from A$1=US$0.75 to A$1=US$0.72 is equivalent to a decline in net margin of 3.0% (Scenario G).

As discussed above, on a store basis, most staff and premises costs are relatively fixed in nature (subject to fixed increases) and consequently, scenarios have not been developed to reflect variations in these assumptions.

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[68] Oanda.com

These scenarios are summarised as follows:

Table 14: OrotonGroup scenarios

Scenario	Description
Scenario A	Base Case assumptions as described above.
Scenario B	Scenario A, except that post FY19 LFL sales growth is 1% higher across all channels
Scenario C	Scenario A, except that post FY19 LFL sales growth is 1% lower across all channels
Scenario D	Scenario A, except that post FY19 LFL sales growth reflects the average LFL revenue growth over the past 3 years across all channels (weighted average of -2%)
Scenario E	Scenario A, except that store-by-store gross margin (constant currency basis) revert to historical gross margins across all channels (weighted average of 51%)
Scenario F	Scenario A, except that net margin is 3.0% higher from FY20 as a result of an appreciation of the A$/US$ exchange rate from A$1=US$0.75 to A$1=US$0.78
Scenario G	Scenario A, except that net margin is 3.0% lower from FY20 as a result of a depreciation of the A$/US$ exchange rate from A$1=US$0.75 to A$1=US$$0.72

Source: KPMG Corporate Finance analysis.

It should also be noted that there is a wide range of other potential outcomes for each variable and even more combinations of those outcomes.

Furthermore, it should be noted that the Cash Flow Model (upon which KPMG Corporate Finance's DCF analysis is based) is not fully integrated and as such, it does not take into consideration interrelationships between key variables (e.g. the impact of sales movement from closed stores to nearby Oroton brand stores or online channels), nor does it take into account management's ability to mitigate adverse outcomes (e.g. through cost reductions or hedging of foreign exchange rates). The output of the DCF analysis for a range of discount rates is summarised below:

Table 15: NPV of OrotonGroup's operating business

	Discount rate					
Scenario	10.0%	10.5%	11.0%	11.5%	12.0%	12.5%
Scenario A	17,689	16,526	15,505	14,601	13,796	13,073
Scenario B	23,083	21,573	20,249	19,077	18,033	17,096
Scenario C	15,266	14,259	13,375	12,593	11,896	11,271
Scenario D	230	173	124	82	46	15
Scenario E	(6,675)	(6,237)	(5,854)	(5,516)	(5,216)	(4,948)
Scenario F	26,789	25,067	23,557	22,223	21,034	19,968
Scenario G	2,369	2,152	1,960	1,790	1,638	1,501

Source: KPMG Corporate Finance analysis.
Note: NPVs are based on the midpoint of the range of tax losses.

Scenarios D and E demonstrate the impact on the NPV of OrotonGroup's operating business assuming that it continues to operate indefinitely (even while generating negative cash flows), which is not realistic. Given that this position is not sustainable we have assumed that OrotonGroup either operates at a 'break-even' level (i.e. cash flows are nil) once cash flows are negative or that at this time the business is sold to a third party for zero value given that it is producing negative cash flows. This assumption substantially increases NPVs under Scenarios D and E as detailed in the following table.

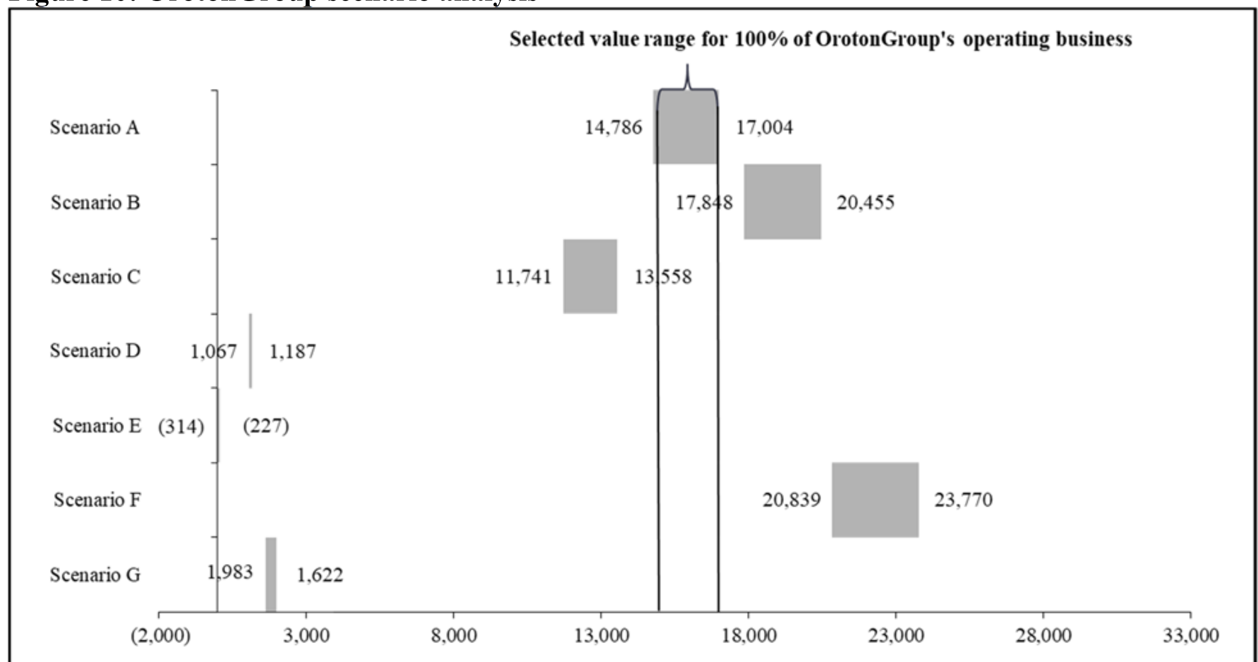
Table 16: Adjusted NPV[69] of OrotonGroup's operating business

	Discount rate					
Scenario	**10.0%**	**10.5%**	**11.0%**	**11.5%**	**12.0%**	**12.5%**
Scenario A	17,689	16,526	15,505	14,601	13,796	13,073
Scenario B	23,083	21,573	20,249	19,077	18,033	17,096
Scenario C	15,266	14,259	13,375	12,593	11,896	11,271
Scenario D	1,177	1,160	1,143	1,126	1,109	1,092
Scenario E	(252)	(259)	(265)	(271)	(278)	(284)
Scenario F	26,789	25,067	23,557	22,223	21,034	19,968
Scenario G	2,369	2,152	1,960	1,790	1,638	1,501

Source: KPMG Corporate Finance analysis.
Note: NPVs are based on the midpoint of the range of tax losses.

The range of values for each scenario (based on a discount rate of 11.0% to 12.0%)[70] is illustrated in the following chart.

Figure 10: OrotonGroup scenario analysis



Source: KPMG Corporate Finance analysis.
Note: Low and high values in the chart are based on a range of probably of realisation of tax losses of 40% to 60% whereas numbers in the tables above are based on the mid-point of the tax losses.

Scenario A is the Base Case. It does, however, contain significant risk as to its achievability as it assumes that:

- from FY20, OrotonGroup's LFL sales increase at 3.0%, which is above the industry forecast of 2.2% and is substantially more favourable than OrotonGroup's average historical LFL sales decline 2.8% over the last three years and seven months. It implies that OrotonGroup

[69] Adjusted NPV assumes that where OrotonGroup's cash flows are negative, OrotonGroup either operates at a 'break-even' level (i.e. cash flows are nil) or that at this time the business is sold to a third party for zero value given that it is loss making.

[70] Low and high values in the chart are based on a range of probably of realisation of tax losses of 40% to 60%.

is able to maintain a stable (or slightly increasing) market share or that industry revenue growth is higher than that forecasted by independent forecasters

- gross margin (constant currency basis) increases from 53.7% in FY17 to 56.7% in FY19, then remains flat (there is no erosion of margin, despite continued competitive pressures)
- there are no material movements in foreign exchange rates (either positive or negative)
- a typical acquirer is able to negotiate the same or similar rent savings to Manderrah
- anticipated operational efficiencies are achieved (with no value leakage or delays)
- OrotonGroup is able optimise its working capital needs, and
- an acquirer would attribute some value to OrotonGroup's Australian tax losses.[71]

Scenario B assumes that LFL sales increase by 4.0% per annum from FY20. Given the substantial and increasing level of competition in the industry (refer to Section 6 of this report), it is difficult to see how OrotonGroup can increase (or maintain) its current market share, in the absence of significant and ongoing investment in the brand beyond FY19 (which is not reflected in the forecasts). Consequently, Scenario B is considered to be unlikely.

Scenario C assumes an increase of 2.0% per annum and Scenario D[72] assumes LFL sales decline for the Oroton brand of 2.0% per annum (slightly more favourable than its historical average decline of 2.8% over the last three years and seven months). Both of these scenarios results in a substantial reduction in value.

The Base Case assumes that OrotonGroup's rebranding strategy effectively results in an improvement in gross margins (constant currency basis) in FY18 and FY19 that is then maintained in subsequent years (without further substantial ongoing investment in the brand). There is a potential for the increase in gross margin in FY18 and FY19 to be eroded over time such that gross margins revert to historical levels (Scenario E[72]). This could occur as a result of a reduction in prices in response to continued discounting by competitors or growth in consumer demand for discounted products, particularly in the absence of substantial ongoing investment in the brand.

There are a range of strategies available to OrotonGroup to mitigate declining volumes or margins, including further reducing head office costs, inventory optimisation and the potential to partially offset a reduction in prices by renegotiating supplier terms. However, the effectiveness of these strategies is limited as:

- the forecasts already include cost reductions arising from operational efficiencies and after these savings, the operations are considered to be relatively lean, and
- OrotonGroup's relatively small scale limits its ability to reduce production lead times or negotiate more favourable supplier terms.

Scenario F shows the impact of an appreciation of the Australian dollar from A$1=US$0.75 to A$1=US$0.78 (equivalent to an increase in net margin of 3.0%) and Scenario G shows the impact of a depreciation of the Australian dollar from A$1=US$0.75 to A$1=US$0.72

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[71] KPMG Corporate Finance has assumed that an acquirer would risk adjust tax losses by between 40% of 60% of the balance.

[72] The range of NPVs under Scenarios D and E is limited as cash flows have been reduced to nil once they become negative.

(equivalent to a decline in net margin of 3.0%). The forecasts do not include the impact of hedging, however, hedging typically covers a relatively short period (two years) and is expensive over longer periods. OrotonGroup's relatively small scale reduces its ability to negotiate more favourable supplier terms in the event of a substantial depreciation of the Australian dollar.

The scenarios above indicate that there is significant downside risk and limited upside without substantial improvement in either sales or gross margin, both of which will be difficult to achieve given the competitive environment (in addition to the risk already included in the Base Case). The difficulty and risk associated with achieving any upside indicates that a likely purchaser would not be prepared to currently include such value in any assessment of the value of OrotonGroup.

After consideration of the various Scenarios and the various factors impacting each of them, KPMG Corporate Finance has assessed a value for OrotonGroup's operating business on a going concern basis in the range of $15 million to $17 million. The range is within the ranges of NPV under the Base Case. The range is below Scenarios B and F, but is higher than Scenarios C, D, E and G. On this basis, we consider the selected value range appropriately takes into consideration the risks inherent in the cash flows.

8.3.2 *Cross-check*

The value attributed to the operating business of OrotonGroup of $15 million to $17 million (including synergies available to a broad pool of purchasers) implies the following multiples of adjusted underlying EBITDA and EBIT:

Table 17: OrotonGroup implied multiples

	Parameter ($ million)	Value range Low	Value range High
Value of OrotonGroup operating business ($ million)		**15.0**	**17.0**
FY17 adjusted underlying EBITDA[1]	5.2	2.9x	3.3x
FY18 Cash Flow Model EBITDA[2]	2.4	6.3x	7.1x
FY19 Cash Flow Model EBITDA[2]	3.7	4.1x	4.6x
FY17 adjusted underlying EBIT[1]	1.6	9.5x	10.7x
FY18 Cash Flow Model EBIT[2]	(0.1)	nmf	nmf
FY19 Cash Flow Model EBIT[2]	0.9	17.2x	19.5x

Source: KPMG Corporate Finance analysis.
Note:
1. *Represents underlying earnings for FY17 from the income statement for OrotonGroup as set out in Section 7.4 of this report, adjusted to exclude earnings from Gap.*
2. *Source: KPMG Corporate Finance Cash Flow Model, which is based on the FY18 and FY19 Forecast as described in Section 8.2.2 of this report, adjusted to:*
   a) *reflect May 2018 forward curve of around A$1=US$0.75 and exclude the impact of derivatives*
   b) *exclude earnings from Gap (which were included until January 2018)*
   c) *exclude significant and non-recurring items*
   d) *exclude $0.6 million of public company cost savings in FY19.*

The multiples implied by KPMG Corporate Finance's selected value range for the OrotonGroup's operating business have been cross-checked having regard to multiples of EBITDA and EBIT for comparable listed retailers and transactions involving comparable retailers. These multiples are summarised in the sections that follow and set out in detail in Appendix 5.

The decline in EBITDA and EBIT from FY17 to FY18 mainly reflects the decline in the effective buying rate from A$1=US$0.81 in FY17 to A$1=US$0.75 in FY18 (an impact of around $3 million). The impact is maintained in FY19 as exchange rates are assumed to be maintained at A$1=US$0.75 (based on the current forward curve). The decline in LFL sales in FY18 is offset by the assumed increase in gross margin. In FY19, the decline in LFL sales is offset by a further increase in gross margin and the impact of the first full year of head office cost savings and rent savings. From FY20 onwards, EBITDA and EBIT decline as growth in operating expenses exceeds growth in LFL sales.

As discussed in Section 8.2.2 of this report, earnings at an EBIT level provide a more appropriate comparison than at an EBITDA level since they take into account the differential level of investment in store assets of OrotonGroup relative to its peers. However, EBIT is negative in FY18 and consequently, EBIT multiples in this year are not meaningful.

Notwithstanding that OrotonGroup's FY17 and FY19 implied EBIT multiples are line with (or higher than) market evidence, we note that:

- OrotonGroup is relatively small compared to most of the comparable companies, which results in lower economies of scale (as described above)
- OrotonGroup is less diversified than a number of the comparable companies, both in terms of the product categories in which it operates and its geographical diversification (predominantly Australia). This increases risk for OrotonGroup, including foreign exchange risk
- the market segment in which OrotonGroup operates in Australia (mainly handbags, wallets and pouches) is facing substantial competition
- sales staff salaries are relatively high in Australia compared to other countries, and
- earnings are expected to decline from FY20 as growth in operating expenses exceeds growth in like-for like sales.

Each of these factors would suggest that a lower earnings multiple is appropriate for OrotonGroup relative to the market evidence.

Market evidence

There are relatively few listed peers or transactions involving retailers of personal accessories and consequently, the selection has been expanded to include listed companies and transactions involving retailers of clothing, footwear and accessories.

Transaction evidence

The following table sets out multiples of EBITDA and EBIT implied by recent transactions involving retailers of clothing, footwear and accessories.

Table 18: Transaction evidence

Date	Target	% acquired	Implied Enterprise Value (millions)[1]	EBITDA Multiple[2]		EBIT Multiple[3]	
				Historical	Forecast	Historical	Forecast
Australia							
Dec-17	Billabong International Limited	81%	A$346	7.1	6.6	13.5	14.2
Jun-17	The PAS Group Limited	51%	A$59	2.6	3.2	3.8	4.9
May-17	Retail Apparel Group Pty Ltd.	100%	A$303	8.3	7.0	n/a[4]	n/a
Feb-17	Tigerlily Swimwear Pty Ltd.	100%	A$60	n/a	8.1	n/a	n/a
Aug-16	Pretty Girl Fashion Group Pty Ltd.	100%	A$82	7.2	n/a	14.6	n/a
Jul-16	Hype DC Pty Ltd.	100%	A$105	9.9	6.0	13.1	7.2
Apr-16	Pacific Brands Limited	100%	A$1,040	13.5	12.0	16.2	13.9
Dec-14	R.M. Williams Pty Ltd.	50.1%	A$90	11.6	n/a	18.3	n/a
Jul-12	Witchery Australia Holdings Pty Ltd.	100%	A$181	5.3	n/a	8.4	n/a
International							
Mar-18	Forest Srl	100%	EUR65	9.0	n/a	n/a	n/a
Feb-18	Perry Ellis International, Inc.	89%	US$497	8.9	7.6	12.1	9.8
Oct-17	Alternative Apparel, Inc.	100%	US$60	n/a	3.5	n/a	n/a
May-17	Kate Spade & Company	100%	US$2,354	10.3	8.3	13.0	11.8
Dec-13	Nine West Holdings, Inc.	100%	US$2,199	9.7	7.9	16.1	11.4
Feb-12	Kenneth Cole Productions Inc.	54%	US$222	10.1	7.1	18.1	10.2

Source: Company financial statements, company announcements, press releases, broker reports, S&P Capital IQ, Mergermarket, KPMG Corporate Finance analysis

Notes:

2. *Implied enterprise value represents consideration plus net debt, preferred equity and minority interests.*
3. *Represents the implied enterprise value divided by EBITDA, where EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.*
4. *Represents the implied enterprise value divided by EBIT, where EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.*
5. *n/a represents not available.*

In relation to the transaction evidence, the following is relevant:

- there is a strong correlation between market capitalisation and multiples of earnings. Economies of scale and level of diversification are important determinants of value for retailers. As discussed in Section 6 of this report, larger companies are better able to leverage an international footprint and take advantage of volume discounts offered by manufacturers, they have larger production runs that reduces the production timeline, typically have more efficient supply chains, distribution and logistics, efficient inventory management and typically have greater capital reserves to survive a sustained period of discounting.

  In this regard, Pacific Brands and most of the international peers are substantially larger and more diversified than OrotonGroup and their multiples are relatively high

- multiples for Australian companies have generally declined over time. This likely reflects the increase in competition from international retailers and online competition since 2012 (refer to Section 6 of this report)

- multiples for PAS Group are low, likely reflecting the decline in earnings in recent years amid difficult trading conditions in Australia and relatively small scale. In addition, PAS Group has a largely wholesale business, for which margins are relatively low

- of the remaining Australian transactions that occurred since 2016 (i.e. excluding Pacific Brands and PAS Group), multiples are in the range of 7.1 to 9.9 times historical EBITDA, 6.0 to 8.1 times forecast EBITDA, 13.1 to 14.6 times historical EBIT and 7.2 to 14.2 times forecast EBIT. A number of these transactions were expected to result in substantial

strategic value for the acquirer, despite weak earnings performance of a number of the target companies. In regard to these transactions:

  - Billabong complemented Boardrider's already prominent action sport product portfolio (Quicksilver, Roxy and DC). The multiples reflect the offsetting impacts of anticipated synergies resulting from the transaction and Billabong's declining sales in previous years
  - Retail Apparel Group owns a number of brands retailing men's apparel across the lower to mid-market. The transaction's relatively high multiples likely reflect the company's significant sales growth despite the tough retail conditions, driven primarily by brands Connor and Johnny Big. Its product and value proposition was also well aligned to the acquirer, enhancing geographic diversification for the South African based business, providing earnings and currency hedge as well as entrenching its positioning in Australia. Retail Apparel Group is significantly larger than OrotonGroup, suggesting a higher multiple is appropriate
  - Tigerlily is more focused around swimwear and apparel as opposed to accessories. The brand's target market is also younger, making it less comparable to OrotonGroup. The buyer was a private investment firm, hence limited synergies were anticipated as part of the transaction
  - Pretty Girl is a multi-brand womenswear retailer with brands that appeal across varying price points. Despite the company suffering declining EBITDA as a result of significant discounting, the acquisition was considered highly transformative for Noni B and was expected to generate significant commercial synergies and cost savings
  - Hype is a premium footwear retailer and the acquisition was considered highly strategic as it complemented RCG Corporation's (now Accent Group) product portfolio, strengthened their leadership in branded footwear, enhanced their vertical strategy and provided new opportunities for scale

- Alternative Brands is also more focused on online operations, operating only three 'bricks and mortar' stores at the time of acquisition. The 3.5 times forecast multiple reflects the post-synergy earnings reported by Hanesbrand and, therefore, is not directly comparable to other multiples, and
- the remaining international transactions since 2016 occurred at multiples of 8.9 to 10.3 times historical EBITDA, 7.6 to 8.3 times forecast EBITDA, 12.1 to 13.0 times historical EBIT and 9.8 to 11.8 times forecast EBIT. In regard to these companies:

  - Kate Spade, a listed designer and marketer of women's and men's fashion apparel and accessories, is a key competitor of OrotonGroup in Australia with a strong overlap in terms of product portfolio. Kate Spade's brand momentum was more favourable than OrotonGroup's and the company was substantially larger. The acquisition by Coach, a design house of luxury accessories and lifestyle brands, also included substantial synergies. As a result of its substantial scale and positive earnings momentum, its multiples are likely to be higher than for OrotonGroup
  - Perry Ellis is also substantially larger than OrotonGroup. Furthermore, it retails multiple brands with a focus on casual wear and sportswear, and

- Forest Srl has a greater focus on online operations than OrotonGroup. It also has a narrower product portfolio with a focus on garments for all ages as opposed to OrotonGroup's focus on the higher end market.

Sharemarket evidence

The following table sets out the implied EBITDA and EBIT multiples for selected listed companies engaged the wholesale and retail of clothing, footwear and personal accessories in Australia and New Zealand as well as internationally.

Table 19: Sharemarket evidence

		EBITDA multiple[2]			EBIT multiple[3]			
	Market Capitalisation ($ million)[1]	Historical[4]	Forecast year 1	Forecast year 2	Historical[4]	Forecast year 1	Forecast year 2	Gross margin (historical)
Australia and New Zealand								
Premier Investments Limited	A$ 2,602	14.8	14.5	12.7	17.6	18.7	16.0	63%
Accent Group Limited	A$ 843	11.3	10.0	9.2	15.7	13.3	11.9	55%
Hallenstein Glasson Holdings Limited	NZ$ 279	8.6	5.8	6.3	11.3	6.9	7.6	61%
Noni B Limited	A$ 291	10.2	9.0	8.3	14.6	12.6	11.3	63%
Specialty Fashion Group Limited	A$ 188	14.5	8.2	n/a[4]	nmf[5]	nmf	n/a	53%
The PAS Group Limited	A$ 45	2.1	n/a	n/a	3.5	n/a	n/a	57%
International								
Tapestry, Inc.	US$ 13,369	nmf	10.1	9.1	nmf	12.1	10.7	66%
Pandora A/S	DKK 47,051	6.0	6.3	5.5	6.5	6.9	6.0	75%
PVH Corp.	US$ 11,244	13.2	10.7	9.8	19.1	14.5	13.0	55%
Michael Kors Holdings Limited	US$ 9,884	9.1	8.7	8.2	11.6	10.9	10.1	60%
Ralph Lauren Corporation	US$ 10,176	10.5	10.5	9.9	15.5	15.3	14.2	60%
G-III Apparel Group, Ltd.	US$ 2,129	12.8	10.4	9.6	15.2	12.3	11.1	38%
Guess?, Inc.	US$ 1,773	9.4	8.6	7.2	15.5	13.5	10.3	35%
Oxford Industries, Inc.	US$ 1,418	10.7	9.9	10.2	15.3	13.9	14.4	56%
Fossil Group, Inc.	US$ 1,307	11.0	9.2	9.0	28.8	19.3	18.4	49%
Ascena Retail Group, Inc.	US$ 727	3.3	4.1	3.8	10.6	16.0	13.6	58%
Gerry Weber International AG	EUR 244	nmf	nmf	7.0	nmf	nmf	19.9	58%
Aeffe S.p.A.	EUR 270	9.6	9.4	9.0	14.0	13.6	12.7	24%
Piquadro S.p.A.	EUR 99	12.4	n/a	n/a	16.7	n/a	n/a	47%

Source: S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, KPMG Corporate Finance analysis

1: Market capitalisation is calculated using closing prices on 3 July 2018

2: EBITDA multiple is enterprise value divided by EBITDA. Enterprise value is market capitalisation plus net debt, preferred equity and minority interest less equity accounted investments, where debt and cash are a 12 month average. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

3: EBIT multiple is calculated by dividing enterprise value by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

5: n/a = not available.

6: nmf = not meaningful.

In relation to the table above, the following is relevant:

- multiples are based on sharemarket prices and, therefore, do not typically include a control premium
- the companies have a variety of year ends ranging from 1 July 2017 to 31 March 2018. For a complete list of financial year ends and reporting dates used in historical figures, please refer to Appendix 5. Multiples for Michael Kors have been shifted back one period to better align year ends between companies
- as described above, there is a strong correlation between market capitalisation and multiples of earnings. Premier Investments in Australia, and most international peers are substantially larger than OrotonGroup and their multiples are relatively high
- multiples for The PAS Group are low, likely reflecting the company's decline in earnings in recent years amid difficult trading conditions in Australia and relatively small scale. PAS Group also has a largely wholesale business, for which margins are relatively low, as well as a limited free float (18%) which may influence its trading multiples

- multiples for the remaining Australian companies (Accent Group, Hallenstein Glasson, Noni B and Specialty Fashion Group) are in the range of 5.8 to 10.0 times first forecast year EBITDA, 6.3 to 9.2 times second forecast year EBITDA, 6.9 to 13.3 times first forecast year EBIT and 7.6 to 11.9 times second forecast year EBIT. In regard to these multiples:
  - the high end of this range is represented by Accent Group, which is larger than the other companies (and OrotonGroup). Its operations are not directly comparable to OrotonGroup as it operates various footwear and apparel stores in Australia and New Zealand
  - Hallenstein has experienced management changes in recent years, in which a series of strategic changes were executed and delivered signs of a turnaround in the previously underperforming business.[73] Its relatively high historical multiples indicate that significant further growth is expected
  - Noni B is focused primarily focused around women's apparel, as well as home products making it less comparable to OrotonGroup. Since acquiring women's apparel brand Pretty Girl in 2016, Noni B has grown considerably. It has also just recently announced the acquisition of a number of struggling core brands from Specialty Fashion Group. Historical and forecast multiples for Noni B have, therefore, been adjusted to reflect the new brand portfolio, and
  - following the sale of certain brands to Noni B, Specialty Fashion Group has retained the plus size women's brand, City Chic. Pro forma historical and forecast EBITDA earnings provided by Speciality Fashion Group management have been used to calculate multiples
- of the international companies, Tapestry, Michael Kors and Gerry Weber are the most comparable companies in terms of their product categories and target markets and they are trading at 8.7 to 10.1 times first forecast year EBITDA and 10.9 to 12.1 times first forecast year EBIT. Each of these companies is substantially larger and more diversified than OrotonGroup, and has a stronger growth profile. Consequently, we would expect OrotonGroup to trade at a lower multiple. In relation to these companies:
  - Tapestry (the owner of competitor labels Coach and Kate Spade) and Michael Kors are reasonably comparable to OrotonGroup with brands that are also focused on the mid to high end luxury market. However, they have a wider range of brands and/or product categories (e.g. footwear and apparel, wearable technology, fragrance products) and greater geographical diversification (sales across the United States, Europe, Asia and Australia). They are both also considerably larger than OrotonGroup, suggesting a lower multiple is appropriate for OrotonGroup, and
  - Gerry Weber International AG engages in the wholesale, and retail of women's clothing and accessories under various brand names in Germany and internationally. It has a similar gross margin to OrotonGroup, however, unlike OrotonGroup, it generates substantial revenues from the wholesale market, and its price points are below the luxury market. It has recently undergone significant restructuring including a comprehensive store closure programme. Consequently, its historical and first forecast year multiples are not meaningful and its second year EBIT multiple (19.9 times) is

[73] The company announced on 16 March 2018 that it will be selling its storm business, however, earnings from this business were relatively minor.

relatively high as earnings are expected to be impacted by the store closures, however, the third year EBIT multiple being substantially lower (15.8 times).

- Aeffe and Piquardro have a limited free float (28% and 32%) which likely impacts their trading multiple.

Summary

In summary:

- recent transactions of Australian and New Zealand retailers of similar scale to OrotonGroup (i.e. excluding Pacific Brands) and excluding The PAS Group (which has a limited free float), occurred at multiples in the range of 7.1 to 9.9 times historical EBITDA, 6.0 to 8.1 times forecast EBITDA, 13.1 to 14.6 times historical EBIT and 7.2 to 14.2 times forecast EBIT
- recent transactions involving international companies occurred at multiples of 8.9 to 10.3 times historical EBITDA, 7.6 to 8.3 times forecast EBITDA, 12.1 to 13.0 times historical EBIT and 9.8 to 11.8 times forecast EBIT. These companies are either substantially larger than OrotonGroup or not directly comparable in terms of their product range and/or target market
- multiples for the most comparable listed Australian companies (Accent Group, Hallenstein Glasson, Noni B and Specialty Fashion Group) are trading at multiples in the range of 5.8 to 10.0 times first forecast year EBITDA, 6.3 to 9.2 times second forecast year EBITDA, 6.9 to 13.3 times first forecast year EBIT and 7.6 to 11.9 times second forecast year EBIT. The high end of this range is represented by Accent Group, which is substantially larger than the other companies (and OrotonGroup), and
- Tapestry, Michael Kors and Gerry Weber are the most comparable companies in terms of their product categories and target markets and they are trading at 8.7 to 10.1 times first forecast year EBITDA and 10.9 to 12.1 times first forecast year EBIT. Each of these companies is substantially larger and more diversified than OrotonGroup and has a stronger growth profile. Consequently, we would expect OrotonGroup to trade at a lower multiple.

8.4 Non-operating assets/(liabilities) (net)

OrotonGroup's non-operating assets/(liabilities) have been valued at $0.9 million (tax effected) and include the net impact of the following items (that are not included in the DCF analysis):

- cash proceeds of $2.2 million from the disposal of OrotonGroup's interest in TDE subsequent to 24 February 2018
- cash received from an offsetting claim that has been processed from OrotonGroup to one of its critical suppliers subsequent to 24 February 2018, and
- non-recurring, additional consulting fees amounting to $1.2 million that are expected to be incurred in relation to OrotonGroup's brand strategy, digital transformation and IT roadmap (associated capital expenditure is included in the cash flows).

This value excludes any value attributed to available carried forward tax losses as this has been reflected in the cash flows.

8.5 Creditors

OrotonGroup's Creditors as summarised on page 71 of the Report to Creditors are as follows:

- Deed Administrators' assessment of total priority creditors (employees) of $1.4 million, comprising wages, annual leave and long service leave as well as redundancy and bonuses
- total net secured creditor position of $17.5 million as at 24 February 2018, including secured debt (net of cash at bank set-off), foreign exchange derivatives, inventory letters of credit, bank guarantees and corporate credit cards
- Deed Administrators' assessment of total unsecured creditors in the range of $11.4 to $16.4 million, including:
  - landlord claims in the range between $8.4 million and $12.3 million based on estimated allowance for re-letting costs, lease incentives required for a new tenancy, pre-appointment rent, outgoings due and make good costs, and
  - other unsecured creditors of $3.0 to $4.0 million including trade, other creditors and accruals (non-related), amounts owing to the Australian Tax Office (ATO) and other.

8.6 Comparison to OrotonGroup's market capitalisation

The value of equity implied by the selected value range for OrotonGroup's operating business is below its market capitalisation on the last trading day prior to the announcement that the Administrators had been appointed ($18.3 million[74]). This discount is reasonable, since it is likely that the price at which OrotonGroup was trading on the ASX reflects some option value, based on either the possibility of a recapitalisation, acquisition or refinancing under the Strategic Process and/or further cost savings or revenue enhancements under the Strategic Review, the particulars of which were not certain at this point in time. Furthermore, we note that since the last trading date:

- other than a brief period of increased sales immediately following the announcement of the voluntary administration, Oroton brand sales in March and April were below forecast as a result of continued competitive pressure, and
- industry conditions have remained weak, as indicated by a number of additional fashion retailers have entering voluntary administration, including Maggie T (January 2018), Zachary the Label (February 2018) and Metalicus (May 2018) while in March 2018, Sambag's owner announced the closure of all stores and in May 2018, Hong Kong based retailer Esprit announced that it was shutting all of its Australian and New Zealand stores.

8.7 Distressed value

KPMG Corporate Finance has also considered the value of the equity in OrotonGroup on a distressed basis, which takes into account the situation faced by OrotonGroup whereby it does not have sufficient funding to pursue its operations for the foreseeable future. In considering the distressed value we have considered the following approaches:

- distressed sale basis, and
- liquidation basis.

A distressed sale basis assumes that the business will be sold as a going concern, and exceeds the value of the assets that comprise the businesses on a liquidation basis (as assessed by the Deed Administrators) noting, however, that the seller would likely be considered in such a

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[74] Based on a closing price of $0.435 on 27 November 2017 and 41,975,077 ORT shares outstanding.

situation to be an 'anxious' seller within the context of the definition of fair value (refer to Section 5.2 and Section 8.2.1 of this report of this report).

In contrast the liquidation basis assumes that the operations of OrotonGroup will cease to exist and its assets will be liquidated to pay outstanding creditor balances and other liabilities. In relation to OrotonGroup, we note that it does not have significant tangible assets capable of realising material value (refer to Section 7.8 of this report). OrotonGroup is likely to only recover a portion of the book value of its inventory in a liquidation scenario and would likely realise relatively limited value for its store assets or other tangible assets. In addition, in their Report to Creditors, the Deed Administrators have assessed landlord creditors to be higher on a liquidation basis than on a going concern basis.

For that reason, we have assumed that the more realistic scenario would be a distressed sale basis (which assumes that secured creditors would fund ongoing trading to the extent necessary to effect the sale on a going concern basis) rather than a 'break up' sale.

8.7.1 Distressed sale basis

On a distressed sale basis, we have considered an increase in the discount rate to take into account the existing distressed situation whereby a potential acquirer would seek a higher rate of return to reflect the increased risk. In this situation, it is likely that debt and equity holders would require a higher cost of capital (at least 5% to 10% higher) than would be required on a going concern basis. KPMG Corporate Finance has discounted the cash flows based on the Base Case using a WACC in the range of 16% to 22% (refer to the table below). This results in a reduction in the value of the operating business. Accordingly, on a distressed sale basis, the assessed value of OrotonGroup's equity is nil.

Table 20: OrotonGroup summary of value - distressed sale basis

	Section reference	Valuation range	
		Low	High
Value of 100% of OrotonGroup's operating business		**7.0**	**10.0**
Non operating assets/(liabilities) (net)	8.4	0.9	0.9
Enterprise value		**7.9**	**10.9**
Creditors:			
Priority creditors (employees)	8.5	(1.4)	(1.4)
Net secured creditors	8.5	(17.5)	(17.5)
Landlords	8.5	(12.3)	(8.4)
Other unsecured creditors	8.5	(4.0)	(3.0)
Total Creditors		**(35.3)**	**(30.4)**
Cash:			
Cash	7.8	15.8	15.8
Less: costs of the administrations	7.8	(5.5)	(5.5)
Implied value of 100% of the equity of OrotonGroup		**(17.1)**	**(9.2)**
Assessed value of 100% of the equity of OrotonGroup		**nil**	**nil**

Source: KPMG Corporate Finance analysis.

8.7.2 *Liquidation basis*

In the Report to Creditors, the Deed Administrators provided an assessment of residual value to creditors under a liquidation basis as at 24 February 2018. KPMG Corporate Finance's calculation of residual value to equity holders in the table below assumes all other creditors are paid in full.

Table 21: OrotonGroup summary of value - liquidation basis

	Section reference	Value range	
		Low	High
Asset realisations before costs		21.2	29.0
Total costs of the Administrations		(5.5)	(5.5)
Cash available for creditors		**15.7**	**23.5**
Priority creditors (employees)		(5.1)	(5.1)
Net secured creditors		(17.5)	(17.5)
Landlords		(18.4)	(18.4)
Other unsecured creditors		(4.5)	(3.5)
Calculated residual value to equity holders (subtotal[1])		**(29.8)**	**(21.0)**
KPMG Corporate Finance adjustments:			
Adjustment to remove value of TDE[2]		(3.6)	(3.6)
Asset realisations in international operations[3]		-	-
Cash in international operations[4]	8.6	2.1	2.1
Non operating assets/(liabilities) (net)	8.4	0.9	0.9
Calculated residual value to equity holders (including international operations)		**(30.4)**	**(21.6)**

Source: KPMG Corporate Finance analysis and Report to Creditors.
Notes:
1. *Calculation includes full amount of unsecured creditors. Excludes international operations.*
2. *Adjustment to remove the assumed realisable value of OrotonGroup's interest in TDE in the Report to Creditors ($3.6 million)*
3. *Assumed asset realisations in international operations are nil.*
4. *Cash in international operations as at 24 February 2018 ($2.1 million) has been included as these operations are not part of the voluntary administration.*

In addition, KPMG Corporate Finance has adjusted the residual value to equity holders for the following:

- deducted the assumed realisable value of OrotonGroup's interest in TDE in the Report to Creditors ($3.6 million) and actual sale proceeds ($2.2 million) have been included in non-operating assets/(liabilities) (net)
- added asset realisations in international operations (assumed to be nil) as international operations are not part of the voluntary administration and, therefore, were not include in the Report to Creditors
- added cash in international operations as at 24 February 2018 ($2.1 million), and
- added non-operating assets/(liabilities) (net) (including TDE sale proceeds of $2.2 million).

In relation to the table we note, the claim for landlords is higher under the liquidation scenario as the Administrators have included allowances for re-letting costs, lease incentives required for new tenancy, pre-appointment rent, outgoings due and make good costs. KPMG Corporate Finance has discussed these calculations with the Deed Administrators, however, has not conducted a detailed review. The residual value to equity holders on a liquidation basis is below that under the distressed sale basis. Accordingly, on a distressed or liquidation basis, the value of OrotonGroup's equity is nil.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Joanne Lupton. Ian is a member of Chartered Accountants Australia and New Zealand, a Senior Fellow of the Financial Securities Institute of Australia and holds a Master of Commerce from the University of New South Wales. He is also a member of the Standards Review Board of the International Valuations Standards Council. Joanne is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Securities Institute Australasia and holds a Bachelor of Commerce degree. Each has a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of IERs.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to the value of the equity in OrotonGroup for the purpose of assisting the Court and ASIC in their determinations regarding the DOCA proposed by Manderrah and providing Shareholders with the necessary information to determine whether to object. KPMG Corporate Finance expressly disclaims any liability to any Shareholder who relies or purports to rely on the report for any other purpose and to any other party (other than the Court and ASIC) who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Explanatory Statement or any other document prepared in respect of the Manderrah Proposal. Accordingly, we take no responsibility for the content of the Explanatory Statement as a whole or other documents prepared in respect of the Manderrah Proposal. We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation or accounting policies. Future taxation changes are unable to be reliably determined at this time.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to Management and to the Deed Administrators for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Explanatory Statement to be issued to Shareholders. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

APES 225

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

Appendix 2 – Sources of Information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- the Explanatory Statement (including earlier drafts)
- OrotonGroup Report to Creditors pursuant to Section 75-225 of the Insolvency Practice Rules (Corporations), 21 March 2018 (Report to Creditors)
- Audited Annual Reports for OrotonGroup for FY13 to FY17
- various ASX company announcements, press and media articles and broker and analyst reports for comparable companies and transactions
- various industry reports and publications, including IBIS World
- financial and information from Bloomberg, Thompson Financial Securities, MergerMarket, Capital IQ and Connect 4
- non-financial information from the Australian Bureau of Statistics, Economist Intelligence Unit, Oxford Economics and BIS Shrapnel
- share price and volume data from IRESS

Non-public information

- transaction documentation (including Manderrah Implementation Deed)
- Monthly Management Accounts for FY13 to FY17 and for the seven months to 24 February 2018 and prior comparable period
- discussion materials provided to various stakeholders (including the Board, Westpac, and Manderrah) in relation to the Strategic Process, sales process, and backstop arrangement
- information provided to potential bidders of OrotonGroup including confidential information memorandum and long-term financial model, and
- other confidential information provided in the data room.

In addition, we have held discussions with the Management and the Deed Administrators and their advisers.

Appendix 3 – Overview of Valuation Methodologies

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted back to the Valuation Date, generating a NPV for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment (such as a structural decline in the industry), or the underlying business is cyclical. This methodology is difficult (if not impossible) to apply for businesses that are generating losses.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business

being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Control premiums

It is generally acknowledged that, in order to acquire a 100% controlling interest in a company, the acquirer should pay a premium over and above the traded price of a minority or portfolio interest. Observations from transaction evidence indicate that takeover premiums generally range from 25% to 40%[75] for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be towards the high end of this range or greater.

In considering the evidence provided by actual transactions, it is important to recognise however that the observed premium for control is an outcome of the valuation process, not a determinant of value and that each transaction will reflect to varying degrees the outcome of a unique combination of factors, including:

- pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the targeted synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing securityholding in the target

[75] KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2008 and 2017, comparing the Mergerstat 'unaffected' share price of the target company to the final offer price

- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive, and
- the extent the target company's security price already reflects a degree of takeover speculation.

It is inappropriate however to apply an average premium without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering. Accordingly, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet. Net asset value is determined by marking every asset and liability on (and off) the entity's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 4 – Discount Rate

Where cash flow forecasts consist of free cash flows to all providers of funding, the WACC is commonly employed as the basis for determining an appropriate discount rate. For the purposes of our DCF analysis for OrotonGroup, we have adopted the following discount rate in the range of 11.0% to 12.0%. We consider these rates appropriately reflect the expected return of a hypothetical prudent purchaser, based upon the perceived risks associated with OrotonGroup.

The selection of an appropriate discount rate to apply to the forecast cash flows of any asset or business operation is fundamentally a matter of judgement rather than a precise calculated outcome. Whilst there is commonly adopted theory that provides a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved, the calculated discount rate should be treated as guidance rather than objective truth. Furthermore, discount rate assessments need to consider both current market conditions and future expectations, and to the extent that there are any changes in conditions and expectations over time, an adjustment to the discount rate at a future point in time may be warranted.

In selecting appropriate discount rates to apply to the cash flows of OrotonGroup, we have determined a nominal WACC to align with the forecast nominal ungeared cash flows being used to derive the resultant DCF values. A WACC represents an estimate of the weighted average required return from both debt holders and equity investors. The WACC is derived using the following formula:

$$\mathrm{WACC} = \mathrm{Wd} * \mathrm{Kd} * (1 - \mathrm{t}) + \left(\mathrm{We} * \mathrm{Ke} * \frac{1 - \mathrm{t}}{1 - \mathrm{t} * (1 - \gamma)}\right)$$

Table 22: WACC parameters

Parameter	Description
Kd	Pre-tax Cost of debt
Wd	Percentage of debt in capital structure
Ke	Pre-tax Cost of equity
We	Percentage of equity in capital structure
t	Company tax rate
ɣ	Gamma (The value of franking credits)

Source: *KPMG Corporate Finance analysis.*

The WACC calculation is typically based on assumptions that may not hold in practice, including:

- a constant optimal capital structure, and
- interest payments on debt being tax deductible.

Cost of equity

The cost of equity can be derived using a modified Capital Asset Pricing Model as follows:

$$\mathrm{Ke} = \mathrm{Rf} + \beta * (\mathrm{Rm} - \mathrm{Rf}) + \alpha$$

Table 23: Cost of equity parameters

Parameter	Description
Rf	Risk free rate, representing the return on risk-free assets
Rm	Market rate of return, representing the expected average return on a market portfolio
(Rm - Rf)	Market risk premium, representing the excess return that a market portfolio is expected to generate over the risk free rate
β	Beta factor, being a measure of the systematic risk of a particular asset relative to the risk of a market portfolio
α	Specific risk factor, which may be included to compensate for risks which are not adequately captured in either the other discount rate parameters or the cash flows being discounted

Source: KPMG Corporate Finance analysis.

WACC – OrotonGroup

KPMG Corporate Finance's rationale for the selection of each of the variables in developing a WACC for OrotonGroup is discussed below.

Risk free rate

The risk free rate of return is the return on a risk free security, typically for a long-term period. In practice, long dated Government bonds are accepted as a benchmark for a risk free security. In Australia, the 10 year Commonwealth Government bond yield is commonly referenced, of which the spot yield was 2.63% as at 30 June 2018.

However, since the global financial crisis in 2008, Government bond yields have remained low compared to long-term averages. Combined with market evidence which indicates that bond yields and the market risk premium are strongly inversely correlated, it is important that any assessment of the risk free rate should be made with respect to the position adopted in deriving the market risk premium. In this regard, KPMG Corporate Finance has adopted a long-term historical market risk premium as a proxy for the expected market risk premium and applied a higher risk free rate than the spot yield of the 10 year Commonwealth Government bond yield. We have adopted 3.9% as an appropriate risk free rate, which represents a blend of the spot rate and a forecast long-term bond yield of 4.15%[76].

Market Risk Premium

Consistent with our approach to the risk free rate, we applied a long term view in setting the market risk premium. A market risk premium of 6.0% is regarded as appropriate by KPMG Corporate Finance for the current long-term investment climate in Australia. Further, it is widely adopted by valuation practitioners in Australia as observed in our most recent Valuation Practices Survey undertaken by KPMG Corporate Finance in July 2017.

Beta

In selecting an appropriate unlevered beta to apply to OrotonGroup, KPMG Corporate Finance has considered OrotonGroup's beta as well as betas for selected listed companies engaged in the

[76] Based on an average of long term bond yields sourced from various economic forecast providers including Oxford Economics, BIS Shrapnel, Deloitte Access Economics and KPMG Economics.

wholesale and retail of clothing, footwear and personal accessories as provided below.

Table 24: Betas and gearing for selected retailers of clothing, footwear and personal accessories

Company name	Market capitalisation (millions)	Levered beta 2-year weekly	Unlevered beta 2-year weekly	Debt to value 2-year avg	Levered beta 5-year monthly	Unlevered beta 5-year monthly	Debt to value 5-year avg
Australian and New Zealand clothing, footwear and accessories							
Premier Investments Limited	A$ 2,602	1.11	1.11	0%	1.17	1.17	0%
Accent Group Limited	A$ 843	n/a	n/a	8%	n/a	n/a	5%
Hallenstein Glasson Holdings Limited	NZ$ 279	n/a	n/a	0%	n/a	n/a	0%
Noni B Limited	A$ 291	n/a	n/a	0%	n/a	n/a	0%
Specialty Fashion Group Limited	A$ 188	n/a	n/a	0%	n/a	n/a	0%
The PAS Group Limited	A$ 45	n/a	n/a	0%	n/a	n/a	n/a
Mean (excluding outliers)		**1.11**	**1.11**	**1%**	**1.17**	**1.17**	**1%**
Median (excluding outliers)		**1.11**	**1.11**	**0%**	**1.17**	**1.17**	**0%**
International clothing, footwear and accessories							
Tapestry, Inc.	US$ 13,369	0.74	0.74	0%	n/a	n/a	0%
PVH Corp.	US$ 11,244	0.90	0.75	23%	0.85	0.70	25%
Pandora A/S	DKK 47,051	0.91	0.88	5%	0.97	0.95	2%
Michael Kors Holdings Limited	US$ 9,884	0.74	0.74	0%	n/a	n/a	0%
Ralph Lauren Corporation	US$ 10,176	0.93	0.93	1%	n/a	n/a	0%
Guess?, Inc.	US$ 1,773	n/a	n/a	0%	n/a	n/a	0%
G-III Apparel Group, Ltd.	US$ 2,129	1.36	1.26	11%	n/a	n/a	6%
Oxford Industries, Inc.	US$ 1,418	0.97	0.92	8%	n/a	n/a	9%
Fossil Group, Inc.	US$ 1,307	2.10	1.74	24%	n/a	n/a	8%
Gerry Weber International AG	EUR 244	0.90	0.66	33%	1.06	0.97	11%
Ascena Retail Group, Inc.	US$ 727	1.42	0.68	63%	1.49	1.21	28%
Aeffe S.p.A.	EUR 270	0.74	0.59	26%	0.81	0.61	32%
Piquadro S.p.A.	EUR 99	0.79	0.76	6%	0.89	0.84	8%
Mean (excluding outliers)		**1.04**	**0.89**	**15%**	**1.01**	**0.88**	**10%**
Median (excluding outliers)		**0.91**	**0.76**	**8%**	**0.93**	**0.90**	**8%**

Source: S&P Capital IQ, KPMG Corporate Finance analysis.
Notes:
1. *Data as at 3 July 2018.*
2. *n/a represents not available or not meaningful due to low statistical significance or for which there are insufficient data points.*

In assessing an appropriate unlevered beta for OrotonGroup, we have considered the following:

- our analysis has focused on the betas calculated over a two year period as the structural shift towards e-commerce platforms has accelerated in recent years
- the Australian retailers are less comparable to OrotonGroup and do not exhibit statistically meaningful levels of beta, with the exception of Premier Investments which observed a two year beta of 1.11. It owns a number of brands, some of which have expanded into other geographical regions (e.g. Smiggle has a presence in the UK, Ireland, Singapore, and Malaysia). Its greater diversification relative to OrotonGroup suggests a higher beta is appropriate for OrotonGroup
- the relatively low unlevered betas exhibited by Piquadro, Gerry Weber, and Aeffe over a two year period (ranging between 0.59 and 0.76) likely reflects their limited free float (ranging between 28% to 49%)

- Ascena also exhibits a relatively low beta (0.68 over a two year period) which is potentially driven by its continued earnings decline over the past two years, which has resulted in its share price declining by over 50%
- Tapestry, Pandora, and Michael Kors share similarities to OrotonGroup in terms of their middle to upper luxury brand reach and product focus on personal accessories, and their ungeared betas range between 0.74 and 0.88 over a two year period. However, they have a wider range of brands and/or product offerings (e.g. footwear and apparel, wearable technology, fragrance products) than OrotonGroup and consequently, are more diversified than OrotonGroup, suggesting a higher beta is appropriate for OrotonGroup
- although Fossil is also considered similar to the above, its relatively high beta (1.74 over a two year period) likely reflects its lower brand momentum and lower product diversification, as it predominantly focuses on watch products (approximately 79% of net sales were attributed to watches in 2017)[77]
- G-III's relatively high beta (1.26 over a two year period) appears to be driven by underperformance over recent years, in which a series of the company's earnings results fell short of estimates. This potentially reflects the number of store closures and concerns over certain acquisitions (e.g. DKNY, which was perceived as a struggling brand at the time). More recently, the share price of G-III has been affected by the bankruptcy of US-based department store chain, Bon-Ton Stores Inc., which is expected to cost $100 million in G-III's anticipated sales in FY19
- of the remaining international peers, the two year unlevered betas are in the range of 0.75 to 0.92, and likely reflect:
  - greater diversified earnings base from the additional exposure to apparel sales, which encompass a broad spectrum of products (e.g. outerwear, undergarments, swimwear, etc.) that appeal to a wider customer market
  - the larger size of the international companies, the majority of which have achieved economies of scale and primarily operate through omni-channel distribution via their own physical and online stores or third parties such as specialty stores and department stores. The greater customer diversification and ability to withstand fluctuations in demand supports the lower betas exhibited
  - superior goods with unique branding (such as those offered by PVH, Ralph Lauren, and Guess) tend to draw a loyal customer base. The defensive attributes allow luxury designers to avoid competing on price and provide a degree of insulation from financial market instabilities. These factors suggest that a higher beta is appropriate for OrotonGroup, which has a lower profile as an 'affordable luxury' label
- intuitively, a beta slightly 1.0 or slightly above 1.0 is appropriate as:

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[77] Fossil Group, Inc. – Form 10-K, for the fiscal year ended 30 December 2017

- OrotonGroup lacks diversification
- retail revenue is heavily influenced by cyclical factors, which affect the discretionary spending patterns of consumers
- retail goods, particularly clothing, footwear and personal accessories, are characterised by high demand elasticity, due to the short-term nature of fashion trends that cater to ever-changing consumer tastes and preferences, and
- luxury goods tend to be more discretionary in nature, varying with disposable income

Taking into account the factors detailed above, KPMG Corporate Finance has selected an ungeared asset beta range of between 1.0 and 1.1 for OrotonGroup.

Gearing

In assessing an appropriate gearing ratio for OrotonGroup, we note:

- we have considered the gearing ratios of comparable entities set out in the table above, the majority of which have no debt. The conservative debt levels likely reflect cyclical and seasonal earnings and limited fixed asset base
- the gearing for international peers is relatively higher (average and median gearing over a two year period of 15% and 8% respectively), potentially reflecting their greater diversification of earnings, however, these companies are arguably less comparable. The higher debt levels of certain companies (e.g. PVH and Ascena) relate to credit facilities used to fund historical acquisitions
- generally, earnings exhibiting high levels of expected volatility are assumed to support lower levels of debt. We note that, consistent with its Australian peers, the majority of OrotonGroup's stock is sourced from overseas suppliers, which introduces greater earnings volatility through sensitivities to foreign exchange rate movements
- working capital requirements at balance date are typically at the highest point with the purchase of inventory in preparation for the upcoming Christmas-driven sales periods (which may overstate the appropriate gearing level)
- generally, companies characterised by higher levels of investment in tangible assets can support a higher gearing profile. In this regard, we note that retailers typically have a fixed asset base (primarily store assets) that is not capable of being realised for substantial value.

Based on the above, we have applied an optimal net debt to value ratio range of 0% to 5%. In conjunction with KPMG Corporate Finance's selected ungeared beta range of 1.0 to 1.1, this results in a levered beta in the range of 1.04 to 1.10.

Tax rate

We have adopted a 30% corporate tax rate based on the Australian statutory corporate tax rate.

Size premium

As small companies tend to be more exposed to risk than large companies, an adjustment needs

to be incorporated into the discount rate to reflect the inherent risk of smaller companies. The basis of our assessment seeks to determine the fair value of OrotonGroup on a 'going concern' basis, therefore, the risk premium applicable to firm size should not include consideration of a company's financial distress. As such, we have sought to reflect the firm size of OrotonGroup prior to any signs of financial distress were exhibited, which is arguably prior to its initial profit warning on 20 January 2017.[78] Based on OrotonGroup's market capitalisation of $85.9 million[79] at 19 January 2017, we have included a small stock premium in the order of 1.5%, which is appropriate for a company with an equity value of between $30 million and $100 million.

Company specific risk premium

We note that the specific risks of OrotonGroup have been captured in the forecast cash flows and through our scenario analysis which best accounts for these risks. Accordingly, to avoid double counting, no further allowance for company specific risk has been included in the determination of the discount rate.

Pre-tax cost of debt

We have adopted a long term, pre-tax cost of debt in the range of 4.9% to 5.4%. The long term cost of debt has been approximated by adding the credit risk spread between 5 year BBB (including BBB- and BBB+) rated Australian corporate bonds and 5 year Australian Government bonds (1.4%) to our long term risk free rate (3.9%) and subtracting the yield differential between 5 and 10 year bonds (negative 0.4%). The high end of the range (5.4%) includes an additional premium of 0.5% to reflect refinancing costs and credit rating sustainability risk. We referred to BBB rated corporate debt pricing on the basis that a rational investor would seek to maximise gearing in the business to a level at which it can maintain an investment grade rating.

In determining the long-term, pre-tax cost of debt, we have also had regard to OrotonGroup's actual cost of debt in the context that does not include consideration of the company's financial distress. In this regard, the terms of the Westpac Facility contained a borrowing margin of 0.7% additional to the interbank base rate[80]. This margin remained applicable prior to the execution of the amended facilities agreement, which became effective on 31 July 2017. However, we note that movements in the cost of debt have a minimal impact on the overall discount rate due to the low levels of gearing assumed above.

Franking credits (Gamma)

Represented by the parameter gamma, the inclusion of franking credits when calculating the discount rate is subject to considerable debate. The value of gamma to an investor will be

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[78] In any event, OrotonGroup has generally remained below $100 million since mid-2015.

[79] Based on a closing price of $2.11 on 19 January 2017 and 40,713,009 ORL shares outstanding.

[80] Refers to the average bid rate displayed at or about 10:30am (Sydney time) on the first day of the relevant period on the Reuters screen BBSY page for a term closest to the relevant period.

determined by the extent that the franking credits can be utilised against the investor's tax liability, and the result will be a value between nil and full value.

However, in assessing the use of a gamma factor for OrotonGroup, we note that assessing the value of the franking credits requires an understanding of the personal tax circumstances of the Shareholders, including the ability to utilise the franking credits. Given that the prevailing tax laws in Australia prevent trading in franking credits, thereby eliminating any open market in franking credits from which the value of such credits can be observed, it is difficult to yield a precise estimate of the value of franking credits. Consequently, we have not factored any value for franking credits into the determination of the discount rate by assuming a nil value for gamma.

WACC conclusion – OrotonGroup

The selected parameters result in a calculated WACC for OrotonGroup in the range of 11.2% to 12.0% as set out as follows.

Table 25: Selected WACC parameters for OrotonGroup

	Parameter	Low	High
Cost of Equity			
Risk free rate	Rf	3.9%	3.9%
Equity market risk premium	EMRP	6.0%	6.0%
Ungeared beta		1.00	1.10
Tax rate		30%	30%
Gearing (debt/equity)		5%	0%
Geared beta	ß	1.04	1.10
Company specific risk premium (alpha)	α	1.5%	1.5%
Cost of equity (post-tax)	**Ke**	**11.6%**	**12.0%**
Cost of Debt			
Base rate		3.9%	3.9%
Corporate Debt Margin	DM	1.0%	1.5%
All in rate (pre-tax)		4.9%	5.4%
Tax rate	T	30%	30%
Cost of debt (post-tax)	**Kd**	**3.4%**	**3.8%**
Capital Structure			
Estimated market value of equity as % of value	We	95%	100%
Estimated market value of debt as % of value	Wd	5%	0%
Post-tax WACC			
Calculated range (rounded)		**11.2%**	**12.0%**
Midpoint (rounded)		**11.6%**	
Selected range		**11.0%**	**12.0%**
Midpoint		**11.5%**	

Source: S&P Capital IQ, KPMG Corporate Finance analysis.

Based on the above analysis, KPMG Corporate Finance has selected a WACC to apply to the post tax, nominal cash flows of OrotonGroup in the range of 11.0% to 12.0%.

Appendix 5 – Market Evidence

Transaction evidence – clothing, footwear and accessories

The following table sets out a summary of transactions involving businesses in the retailing of clothing, footwear and accessories industry since 2012.

Table 26: Transaction evidence – clothing, footwear and accessories

Date	Target	% acquired	Implied Enterprise Value (millions)[1]	EBITDA Multiple[2]		EBIT Multiple[3]	
				Historical	Forecast	Historical	Forecast
Australia							
Dec-17	Billabong International Limited	81%	A$346	7.1	6.6	13.5	14.2
Jun-17	The PAS Group Limited	51%	A$59	2.6	3.2	3.8	4.9
May-17	Retail Apparel Group Pty Ltd.	100%	A$303	8.3	7.0	n/a[4]	n/a
Feb-17	Tigerlily Swimwear Pty Ltd.	100%	A$60	n/a	8.1	n/a	n/a
Aug-16	Pretty Girl Fashion Group Pty Ltd.	100%	A$82	7.2	n/a	14.6	n/a
Jul-16	Hype DC Pty Limited	100%	A$105	9.9	6.0	13.1	7.2
Apr-16	Pacific Brands Limited	100%	A$1,040	13.5	12.0	16.2	13.9
Dec-14	R.M. Williams Pty Ltd.	50.1%	A$90	11.6	n/a	18.3	n/a
Jul-12	Witchery Australia Holdings Pty Ltd.	100%	A$181	5.3	n/a	8.4	n/a
International							
Mar-18	Forest Srl	100%	EUR65	9.0	n/a	n/a	n/a
Feb-18	Perry Ellis International, Inc.	89%	US$497	8.9	7.6	12.1	9.8
Oct-17	Alternative Apparel, Inc.	100%	US$60	n/a	3.5	n/a	n/a
May-17	Kate Spade & Company	100%	US$2,354	10.3	8.3	13.0	11.8
Dec-13	Nine West Holdings, Inc.	100%	US$2,199	9.7	7.9	16.1	11.4
Feb-12	Kenneth Cole Productions Inc.	54%	US$222	10.1	7.1	18.1	10.2

Source: Company financial statements, company announcements, press releases, broker reports, S&P Capital IQ, Mergermarket, KPMG Corporate Finance analysis

Notes:

1. *Implied enterprise value represents consideration plus net borrowings assumed and displayed in millions as per the local currency relevant to the transaction.*
2. *Represents the implied enterprise value excluding earn-outs payable divided by EBITDA, where EBITDA is earnings before net interest, tax, depreciation, amortisation, other income and significant and non-recurring items.*
3. *Represents the implied enterprise value divided by EBIT, where EBIT is earnings before net interest, tax, amortisation, other income and significant and non-recurring items.*
4. *n/a represents not available.*

Description of comparable transactions

A brief description of the selected comparable transactions is provided below. Implied enterprise value includes the consideration offered and is adjusted for net assumed liabilities (total debt, capital lease obligations and cash and equivalents).

Australia

Acquisition of an 80.7% interest in Billabong International Limited by Boardriders, Inc.

On 1 December 2017, Boardriders, Inc. announced the acquisition of an 80.7% stake in Billabong International Limited (Billabong). Billabong is a wholesaler and retailer of apparel, accessories, eyewear, wetsuits and hard goods in the board sports sector in the Asia Pacific, the Americas, Europe, and internationally. As of 30 June 2017, it operated 372 retail stores under various banners, including Billabong, Element, RVCA, Surf Dive 'n' Ski, Amazon, Honolua,

Two Seasons and Quiet Flight. Boardriders, as owner of the Quicksilver brand (one of the two major competitors to Billabong), was expected to generate substantial synergies from merging the two businesses. Although expected synergies were not publicly disclosed, the independent expert identified that they would likely include the elimination of head office functions and duplicated shared services, merging of operations such as sourcing and logistics, purchasing power benefits, e-commerce fulfilment rationalisation and inventory realignment in multi-brand stores.

Acquisition of remaining 51.4% of The PAS Group Limited by Blackwell Partners, LLC-Series A and various funds of Coliseum Capital Management, LLC

On 16 June 2017, Blackwell Partners, LLC-Series A, fund of Brightleaf Capital along with Coliseum Capital Partners II, L.P., Coliseum Capital Partners LP, Coliseum Capital Co-Invest, L.P., funds of Coliseum Capital Management, LLC made an offer to acquire remaining 51.4% stake in The PAS Group Limited (Pas Group) (ASX:PGR) for $35.9 million. PAS Group operates as a wholesaler and retailer of apparel, accessories and sports equipment. The company offers swimwear and activewear under the JETS brand; lifestyle leisurewear for men and women under the Black Pepper, Breakaway, Yvonne Black, and Equus brands; bridal party, mother of the bride, and formal dresses under the White Runway brand; casualwear for women under the Yarra Trail brand; knitwear for women aged over 40+ under the Marco Polo brand; and bags, accessories, and sunglasses under the Fiorelli brand. PAS Group sells its products through retail stores; department and discount department stores; and specialty and independent retailers, as well as through online.

Acquisition of Retail Apparel Group Pty Ltd. by TFG Retailers Pty Ltd.

On 24 May 2017, TFG Retailers Pty Ltd. (TFG), a subsidiary of the South African retailer The Foschini Group, entered into an agreement to acquire Retail Apparel Group Ltd. (RAG). The purchase price was capped at the lower of 7 times RAG's audited normalised EBITDA for year ending June 2017 and $302.5 million, calculated on a debt free, cash free basis. RAG is a retailer of men's apparel and accessories. Despite challenging industry conditions, in the 12 months to June 2016, RAG increased sales by 15% to $326.2 million and increased EBITDA by 19% to $36.5 million. The transaction was considered highly strategic as RAG's product and positioning were considered well aligned to TFG's multi-brand offering. The transaction also further broadened TFG's international expansion into chosen geographies, established store and online channels to provide a strong platform for the expansion of TFG's brands in Australasia and provided an earnings and currency hedge whilst entrenching TFG's positioning in Australia.

Acquisition of Tigerlily Swimwear Pty Ltd. by Crescent Capital Partners Management Pty Ltd.

On 23 February 2017, Crescent Capital Partners Management Pty Ltd, an Australia-based private equity firm, agreed to acquire Tigerlily Swimwear Pty Ltd. (Tigerlily), an Australia-based company engaged in the retailing and wholesaling of swimwear and girls' apparel, from Billabong for a consideration of $60 million. For the year ended 31 December 2016, Tigerlily

was expected to contribute between $7 million and $8 million in EBITDA to Billabong for the 2017 financial year, translating to 7.5 to 8.6 times forecast EBITDA.

Acquisition of Pretty Girl Fashion Group Pty Ltd. by Noni B Limited

On 2 August 2016, Noni B limited (Noni B) entered into an agreement to acquire Pretty Girl Fashion Group Pty Ltd. (Pretty Girl) from Consolidated Press Holdings Pty Limited for a total consideration of $82 million, on a cash free, debt free basis, comprising $65 million in cash, $9.7 million in noni B shares and up to $7.3 million in cash over two tranches, depending on the revenue performance of existing Pretty Girl stores in FY17 and FY18. Pretty Girl sources and retails women's apparel across a network of 379 stores. The acquisition was considered strategic, adding four highly complementary brands, Rockmans, W. Lane, BeMe, and Table Eight, to the Noni B portfolio. The acquisition was also anticipated to generate significant commercial synergies and cost savings for Noni B. Historical multiples are based on pro forma profit and loss for FY16 as reported by management.

Acquisition of Hype DC Pty Limited by RCG Corporation Limited

On 4 July 2016, RCG Corporation Limited (RCG) (ASX:RCG) entered into a binding agreement to acquire Hype DC Pty Limited (Hype DC) for approximately $105 million in cash and shares. Hype DC is a retailer of premium, exclusive and limited edition sneakers, curated from the world's leading brands. In addition, Hype DC carries a focused range of premium fashion footwear, predominantly through its Shubar brand. RCG, which was already a prominent apparel and branded footwear retailer, considered the acquisition highly strategic, citing a number of strategic benefits including: earnings accretion; portfolio diversification; strengthened market leadership; opportunities of scale; enhanced vertical strategy; new retail formats; and complementary management skills.

Acquisition of Pacific Brands Limited by Hanesbrands, Inc.

On 27 April 2016, Hanesbrands Inc. (Hanesbrands) (NYSE:HBI) signed a definitive agreement to acquire Pacific Brands Limited (Pacific Brands) from a group of investors for AUD 990 million. Post-acquisition, Hanesbrands will seek to retain the Pacific Brands' senior management team to run the business. Pacific Brands Limited imports, manufactures, markets, distributes, wholesales, and retails consumer products in Australia and internationally. The company operates through four segments: Underwear; Sheridan; and Tontine and Dunlop Flooring. Hanesbrands Inc., a consumer goods company, that designs, manufactures, sources, and sells a range of basic apparel for men, women, and children in the United States, used this strategic acquisition as a way of entering the Australian market and was anticipated to generate synergies from the acquisition.

Acquisition of remaining 50.1% of RM Williams Pty Ltd. by L Capital Asia, LLC

On 31 December 2014, L Capital Asia, LLC, a Singapore-based private equity firm, acquired a 50.1% stake in R. M. Williams Pty Ltd., the Australia-based manufacturer and retailer of footwear, clothing, and accessories, from Kenneth Cowley, the Australia-based private individual having interest in companies engaged in manufacturing and retailing footwear, clothing, and accessories, for an undisclosed consideration. The acquisition was anticipated to

result in synergies as L Capital Asia, LLC was a subsidiary of luxury fashion house LVMH Moet Hennessy Louis Vuitton SA.

Acquisition of Witchery Australia Holdings Pty Ltd. by Country Road Group Pty Ltd.

On 31 July 2012, Country Road Group Pty Ltd. (Country Road) (ASX:CTY) announced the acquisition of Witchery Australia Holdings Pty Limited (Witchery Australia) from Gresham Private Equity Limited, its fund Gresham Private Equity Fund II, L.P. and management vendors for $180.9 million for the acquisition. Witchery Australia, through its subsidiaries, owns and operates retail stores for two fashion brands Witchery and Mimco. Witchery specialises in women's, men's and children's clothing and accessories and had 210 stores across Australia, New Zealand, South Africa and Singapore at time of acquisition. Mimco, is a fashion accessory brand which operated 96 stores in Australia, New Zealand and Singapore at the time of acquisition.

International

Acquisition of Forest Srl by Progressio Investiementi III

On 7 March 2018, Progressio Investimenti III managed by Progressio SGR SpA and Nicolas Bargi agreed to acquire Forest Srl from Alchimia S.p.a. and Nicolas Bargi for an enterprise value of €65 million. Forest Srl manufactures garments for men, women, and juniors. It offers quilted jackets, quilted vests, quilted shirts/fields, motorcyclist jackets, and quilted bombers for men. The company also offers quilted jackets, quilted vests, quilted shirts, motorcyclist jackets, quilted capes, quilted bombers, and quilted T-shirts for women; and quilted jackets, quilted vests, motorcyclist jackets and crew-necks, quilted capes, quilted bombers, and quilted T-shirts for juniors. It offers its products through distributors in the United States, Canada, and Mexico. No significant synergies were expected to result from the acquisition.

Acquisition of 89.13% of Perry Ellis International, Inc. by George Feldenkreis

On 6 February 2018, George Feldenkreis made a proposal to acquire remaining 89.13% stake in Perry Ellis International, Inc. (Perry Ellis International) (NasdaqGS:PERY) for approximately US$390 million. Under the terms of agreement, George Feldenkreis would acquire Perry Ellis International's remaining shares for US$27.50 per share. The transaction is pending and not yet closed. Perry Ellis International, Inc. designs, sources, markets, and licenses apparel products, accessories, and fragrances. It operates through four segments: Men's Sportswear and Swim, Women's Sportswear, Direct-to-Consumer, and Licensing. As of March 1, 2018, it operated 36 Perry Ellis, 15 Original Penguin, and two multi-brand retail outlet stores located primarily in upscale retail outlet malls in the United States, the United Kingdom and Puerto Rico; and two Perry Ellis, two Cubavera, seven Original Penguin and two multi-brand full price retail stores located in upscale demographic markets in the United States and the United Kingdom. No synergies were announced.

Acquisition of Alternative Apparel, Inc. by Hanesbrands, Inc.

On 18 October 2017, Hanesbrands announced that it had entered into an agreement to acquire Alternative Apparel, Inc. (Alternative Apparel) for US$60 million (enterprise value).

Alternative Apparel, founded in 1995, sells Alternative brand better basic T-shirts, fleece and other tops and bottoms. Alternative Apparel is a lifestyle brand known for its comfort, style and social responsibility. The company's sales and growth are split between the embellishment channel and the retail, online and direct-to-consumer channels. The company operates three Alternative stores – in Venice, CA; SoHo, New York; and San Francisco. Hanesbrand reported that the post-synergy purchase price multiple was expected to be approximately 3.5 times forecast EBITDA. Synergies were expected to be generated from utilisation of Hanesbrand's global supply chain and market and channel penetration, including online.

Acquisition of Kate Spade & Company by Coach, Inc.

On 7 May 2017, Coach, Inc. (NYSE:COH) signed an agreement and plan of merger to acquire Kate Spade & Company (Kate Spade) (NYSE:KATE) for $2.4 billion. Under the terms of the agreement, Coach will commence an all-cash tender offer to acquire any and all of Kate Spade's outstanding shares of common shares at a purchase price of US$18.5 per share. Kate Spade & Company, together with its subsidiaries, designs and markets apparel and accessories. The company sells its products through specialty retail and outlet stores, specialty retail and upscale department stores, and concession stores and upscale wholesale accounts; and a network of distributors, as well as e-commerce platform. As of 31 December 2016, it had 104 specialty retail stores and 64 outlet stores in the United States; and 22 specialty retail stores, 52 concessions, and 13 outlet stores internationally. After adjusting for net debt as at 1 April 2017 and using EBITDA and EBIT figures for 1 April 2017, historical multiples of 10.3 times EBITDA and 13.0 times EBIT were calculated. Brokers consensus forecasts were used to calculate forecast multiples. Coach, a design house of luxury accessories and lifestyle brands, anticipated significant synergies from the acquisition. It enhanced Coach's position in the global handbag and accessories, footwear and outerwear categories, bringing product, brand positioning and customer diversification to the portfolio. Coach anticipates to realize a run rate of approximately US$50 million in synergies within three years of the closing, through operational efficiencies, improved scale and inventory management, and the optimization of KATE's supply chain network.

Acquisition of Nine West Holdings (previously The Jones Group) by Sycamore Partners, L.P.

On 19 December 2013, Sycamore Partners, L.P., fund of Sycamore Partners signed a definitive agreement to acquire The Jones Group Inc., now known as Nine West Holdings, from Wesley R. Card, Richard Dickson, LSV Asset Management, Morgan Stanley (NYSE:MS), AllianceBernstein L.P., The Bank of New York Mellon Corp, Private Banking & Securities Investments and others for US$1.2 billion in cash. Nine West Holdings, Inc. designs, markets, and wholesales apparel, footwear, jeanswear, jewellery, and handbags in the United States and internationally. It operates through six segments: Domestic Wholesale Sportswear; Domestic Wholesale Jeanswear; Domestic Wholesale Footwear and Accessories; Domestic Retail; International Wholesale; and International Retail. The company offers career and casual sportswear, jeanswear, dresses, suits, skirts, pants, shorts, jackets, blouses, casual tops, sweaters, and related accessories for the women's, juniors, and girls markets. After adjusting for net debt and minority interest as at 5 October 2013 and using EBITDA and EBIT figures for 5 October

2013, historical multiples were calculated. Brokers consensus forecast were used to calculate forecast multiples.

Acquisition of remaining 54.4% of Kenneth Cole Products by family of Kenneth D. Cole

On 23 February 2012, Kenneth D. Cole, Chairman and Chief Creative Officer of Kenneth Cole Productions, Inc. (Kenneth Cole) (NYSE:KCP) and family of Kenneth D. Cole announced the acquisition of the remaining 54.4% stake in Kenneth Cole Productions, Inc. Kenneth Cole designs, sources, and markets a range of fashion footwear, handbags, and apparel in the United States and internationally. The company, through license agreements, also designs and markets apparel and accessories under its Kenneth Cole New York, Kenneth Cole Reaction, Unlisted, and Le Tigre brand names; and footwear under the proprietary Gentle Souls trademark. In addition, it designs, develops, and sources private label footwear and handbags for selected retailers. After adjusting for net debt and minority interest as at 31 December 2011 and using EBITDA and EBIT figures for 31 December 2011, historical multiples of 10.1 times EBITDA and 18.1 times EBIT were calculated. Brokers consensus forecast were used to calculate 7.1 times forecast EBITDA and 10.2 times forecast EBIT. No synergies were anticipated from the acquisition.

Sharemarket evidence

The following table sets out the implied EBITDA and EBIT multiples for selected listed companies operating in the healthcare distribution industry.

Table 27: Sharemarket evidence

	Market Capitalisation	EBITDA multiple[2]			EBIT multiple[3]			Gross profit margin
	($ million)[1]	Historical[4]	Forecast year 1	Forecast year 2	Historical[4]	Forecast year 1	Forecast year 2	Historical[4]
Australian and New Zealand								
Premier Investments Limited.	A$ 2,602	14.8	14.5	12.7	17.6	18.7	16.0	63%
Accent Group Limited	A$ 843	11.3	10.0	9.2	15.7	13.3	11.9	55%
Hallenstein Glasson Holdings Limited[5]	NZ$ 279	8.6	5.8	6.3	11.3	6.9	7.6	61%
Noni B Limited	A$ 291	10.2	9.0	8.3	14.6	12.6	11.3	63%
Specialty Fashion Group Limited	A$ 188	14.5	8.2	n/a[18]	nmf[19]	nmf	n/a	53%
The PAS Group Limited	A$ 45	2.1	n/a	n/a	3.5	n/a	n/a	57%
International								
Tapestry, Inc.	US$ 13,369	nmf	10.1	9.1	nmf	12.1	10.7	66%
Pandora A/S[6]	DKK 47,051	6.0	6.3	5.5	6.5	6.9	6.0	75%
PVH Corp.[7]	US$ 11,244	13.2	10.7	9.8	19.1	14.5	13.0	55%
Michael Kors Holdings Limited[8]	US$ 9,884	9.1	8.7	8.2	11.6	10.9	10.1	60%
Ralph Lauren Corporation[9]	US$ 10,176	10.5	10.5	9.9	15.5	15.3	14.2	60%
G-III Apparel Group, Ltd.[10]	US$ 2,129	12.8	10.4	9.6	15.2	12.3	11.1	38%
Guess?, Inc.[11]	US$ 1,773	9.4	8.6	7.2	15.5	13.5	10.3	35%
Oxford Industries, Inc.[12]	US$ 1,418	10.7	9.9	10.2	15.3	13.9	14.4	56%
Fossil Group, Inc.[13]	US$ 1,307	11.0	9.2	9.0	28.8	19.3	18.4	49%
Ascena Retail Group, Inc.[14]	US$ 727	3.3	4.1	3.8	10.6	16.0	13.6	58%
Gerry Weber International AG[15]	EUR 244	nmf	nmf	7.0	nmf	nmf	19.9	58%
Aeffe S.p.A.[16]	EUR 270	9.6	9.4	9.0	14.0	13.6	12.7	24%
Piquadro S.p.A.[17]	EUR 99	12.4	n/a	n/a	16.7	n/a	n/a	47%

Source: S&P Capital IQ, Merger Market, Company Announcements, Company financial statements, KPMG Corporate Finance analysis

1 *Market capitalisation is calculated using closing prices on 3 July 2018*
2 *EBITDA multiple is calculated by dividing Enterprise Value by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items. The Enterprise Value is the market capitalisation plus net debt, preferred equity, and minority interest, which is then adjusted for investments accounted for using the equity method.*
3 *EBIT multiple is calculated by dividing Enterprise by EBIT. EBIT is earnings before net interest, tax, amortisation, investment income and significant and non-recurring items*
4 *Historical is reflective of the latest reported financial year. Unless specified the historical financial year period is reflective of the 12 months ending 30/06/2017*
5 *Hallenstein Glasson Holdings Limited historical EBITDA and EBIT is reflective of the 12 month period ending 31/07/2017*
6 *Pandora A/S historical EBITDA and EBIT is reflective of the 12 month period ending 31/12/17*
7 *PVH Corp. historical EBIDTA and EBIT is reflective of the 12 month period ending 04/02/18*
8 *Michael Kors Holdings Limited historical EBITDA and EBIT is reflective the brokers estimates for the 12 month period ending 31/03/18*
9 *Ralph Lauren Corporation EBITDA and EBIT is reflective of the 12 month period ending 31/03/18*
10 *G-III Apparel historical EBITDA and EBIT is reflective of the 12 month period ending 31/12/17*
11 *Guess historical EBITDA and EBIT is reflective of the 12 month period ending 03/02/18*
12 *Oxford Industries, Inc. historical EBITDA and EBIT is reflective the 12 month period ending 03/02/18*
13 *Fossil Group historical EBITDA and EBIT is reflective of the 12 month period ending 31/12/17*
14 *Ascena Retail Group, Inc. historical EBITDA and EBIT is reflective of the 12 month period ending 29/07/17*
15 *Gerry Weber International AG historical EBITDA and EBIT is reflective of the 12 month period ending 31/10/17*
16 *Aeffe S.p.A. historical EBITDA and EBIT is reflective the 12 month period ending 31/12/17*
17 *Piquadro S.p.A. historical EBITDA and EBIT is reflective of the 12 month period ending 30/09/17*
18 *n/a = not available*
19 *nmf = not meaningful*

The multiples are based on sharemarket prices as at 6 June 2018 and do not typically include a control premium. A brief description of each company is outlined below.

Australian and New Zealand

Premier Investments Limited

Premier Investments Limited operates various specialty retail fashion chains in Australia, New Zealand, Singapore, the United Kingdom, Ireland, Malaysia, and Hong Kong. The company offers casual wear, women's wear, and non-apparel products. Its brand portfolio comprises Just Jeans, Jay Jays, Jacqui E, Portmans, Dotti, Peter Alexander and Smiggle. The company provides its products through approximately 1,100 stores, as well as through online. The proportion of sales by region for the period ended 29 July 2017 was: Australia (76%); New Zealand (12%); Europe (9%); and Asia (3%).

Accent Group Limited

Accent Group Limited, an investment holding company, owns and operates various footwear and apparel stores in Australia and New Zealand. The company's The Athlete's Foot segment franchises and retails general sports footwear. Its RCG Brands segment engages in the wholesale and retail of the Merrell, Caterpillar, Sperry, Saucony, and Instride branded footwear/apparel and operation of the Merrell retail and Podium Sports stores. The company's Accent Group segment operates as a wholesaler and retailer of the Skechers, Vans, Dr. Martens, Timberland, Palladium, and Stance branded footwear/apparel and accessories and operates the Skechers, Vans, Timberland, Platypus, and HYPE retail stores. As of July 2, 2017, it operated 430 stores. The company was formerly known as RCG Corporation Limited and changed its name to Accent Group Limited in November 2017.

Hallenstein Glasson Holdings Limited

Hallenstein Glasson Holdings Limited, together with its subsidiaries, retails men's and women's clothing in New Zealand and Australia. It also owns and leases various retail outlets under operating lease agreements. As at 1 August 2017, the company operates stores under the Glassons New Zealand (37% of revenue), Glassons Australia (21% of revenue) and Hallensteins Brothers (38% of revenue), as well as offers products through its e-commerce platform. It operates over 120 stores, with approximately 30 stores in Australia. It also operated 10 stores and an online business under the Storm brand. On 16 March 2018, the company announced the sale of the Storm business to Blackstar Holdings Limited, which posted a 313 thousand loss in year prior. The sale is considered immaterial relative to the size of Hallenstein's business, as such no adjustment to the calculation of multiples has been made.

Noni B Limited

Noni B Limited engages in the retail of women's apparel and accessories in Australia. The company offers dresses; skirts; tops, shirts, tees, twinsets, kaftans, and tunics; pants; shorts; jackets and vests; capes and ponchos, cardigans and shrugs, and sweaters and jumpers; and accessories, such as bags and hats, gifts, jewellery, and scarves. It sells its products through a national network of boutique stores under the Noni B, Rockmans, W-Lane, and beme brand names. On 14 May 2018, Noni B agreed to acquire the assets and businesses of Millers, Katies, Crossroads, Autograph and Rivers from Specialty Fashion Group for total consideration of $31.0 million in cash. In calculating multiples, Noni B's net borrowings have been increased by

$31.0 million and broker forecasts include earnings from the acquisition. However, historical and first forecast year earnings do not include earnings from the acquisition and consequently, are not meaningful.

The PAS Group Limited

The PAS Group Limited operates as a wholesaler and retailer of apparel, accessories, and sports equipment for women, men, and children. It operates through two segments, Retail and Wholesale. The company offers swimwear and activewear under the JETS brand; lifestyle leisurewear for men and women under the Black Pepper, Breakaway, Yvonne Black, and Equus brands; bridal party, mother of the bride, and formal dresses under the White Runway brand; casualwear for women under the Yarra Trail brand; knitwear for women aged over 40+ under the Marco Polo brand; and bags, accessories, and sunglasses under the Fiorelli brand. The PAS Group Limited sells its products through retail stores; department and discount department stores; and specialty and independent retailers, as well as through online. As of June 30, 2017, it operated 258 retail sites in Australia and New Zealand.

Specialty Fashion Group Limited

Specialty Fashion Group operates as a specialty retailer of women's fashion products in Australia, New Zealand, South Africa, and the United States. Following a recent Structural Review, Specialty Fashion Group announced the divestment of selected challenged businesses (Millers, Katies, Crossroads, Autograph and Rivers) to Noni B for $31.0 million in cash, and retained the City Chic business, a market leader in the plus-size women's apparel market that is expected to generate between $19.0 million and $20.0 million underlying pro-forma EBITDA in the 12 months ended June 2018. Pro forma historical earnings (excluding earnings from the divested businesses) have also been used to calculate historical EBITDA multiples and the cash increase of $31 million from the sale has been reflected in the Enterprise Value. Historical EBIT is negative.

International

Tapestry, Inc.

Tapestry, Inc. provides luxury accessories and lifestyle brands. It markets its products to consumers through a network of Coach-operated stores, including Internet in North America; and Coach-operated stores and concession shop-in-shops in Japan, Mainland China, Hong Kong, Macau, Singapore, Taiwan, Malaysia, South Korea, the United Kingdom, France, Ireland, Spain, Portugal, Germany, Italy, Austria, Belgium, the Netherlands, and Switzerland, as well as to wholesale customers and distributors in approximately 55 countries. The company sells its Stuart Weitzman products through department stores; independent third party distributors; and stores, including the Internet. It operates approximately 1,300 stores under the Coach, kate spade new york, and Stuart Weitzman brands. The company was formerly known

as Coach, Inc. and changed its name to Tapestry, Inc. in October 2017. Tapestry, Inc. was founded in 1941 and is headquartered in New York, New York.

Pandora A/S

Pandora A/S designs, manufactures, and markets hand-finished and contemporary jewellery worldwide. The company offers jewellery, including diamonds, gemstones, cultured pearls, man-made stones, and silver and gold, as well as leather, glass, wood, enamel, and textile products. Its products primarily include charms, bracelets, rings, earrings, necklaces, and pendants. As at 31 December 2017, the company segments reported its revenue into three geographies: EMEA (48%), the Americas (31%) and Asia Pacific (21%). The company operates through a network of 2,446 concept stores, which include 974 company owned stores; and 5,348 other points of sale and 19 e-stores. The company was founded in 1982 and is headquartered in Copenhagen, Denmark.

PVH Corp.

PVH Corp. operates as an apparel company in North America and internationally. The company operates through six segments: Calvin Klein North America, Calvin Klein International, Tommy Hilfiger North America, Tommy Hilfiger International, Heritage Brands Wholesale, and Heritage Brands Retail. It designs, markets, and retails men's and women's apparel and accessories, including branded dress shirts, dresses, suits, neckwear, sportswear, jeans wear, performance and intimate apparel, underwear, swimwear, swim products, handbags, luggage products, footwear, golf apparel, sleepwear and loungewear, eyewear and fragrances, cosmetics, skincare products and toiletries, socks and tights, jewellery, watches, outerwear, small leather goods, and furnishings, as well as other related products. The company offers its products under its own brands. As a 4 February 2018, the segmented its operations across Calvin Klein (34% of revenue), Tommy Hilfiger (51% of revenue) and various Heritage brands (15% of revenue). The company also offers licensed brands comprising Speedo, Geoffrey Beene, Kenneth Cole New York, Kenneth Cole Reaction, Michael Kors, Michael Kors Collection, DKNY, and Chaps, as well as various other licensed and private label brands. It also licenses its own brands over various products. The company distributes its products at wholesale in department, chain, and specialty stores, as well as through warehouse clubs, mass market and off-price retailers, and independent retailers; and through company-operated full-price specialty and outlet stores, as well as through digital commerce sites. PVH Corp. was founded in 1881 and is based in New York, New York.

Michael Kors Holdings Limited

Michael Kors Holdings Limited (Michael Kors) design, markets, distributes, and retails branded women's apparel and accessories, and men's apparel. As at 1 March 2017, the company operated in three segments: Retail, Wholesale, and Licensing.

- The Retail segment accounts for approximately 57% of revenue and is involved in the sale of women's apparel; men's apparel; accessories, which include handbags and small leather goods, such as wallets; footwear; and licensed products comprising watches, jewellery, fragrances, beauty products, and eyewear. It operates collection stores and lifestyle stores, including concessions and outlet stores. As of April 1, 2017, this

segment operated 398 retail stores in the United States, Canada, and Latin America, including concessions; and 429 international retail stores, including concessions in Europe and Asia, as well as e-commerce sites in the United States, Canada, France, Germany, Italy, Spain, Switzerland, the United Kingdom, China, and Japan.

- The Wholesale segment, which accounted for 40% of revenue, sells accessories, such as handbags and small leather goods, footwear, and women's and men's apparel to department stores and specialty shops in the United States, Canada, Latin America, Europe, and Asia.
- The Licensing segment, which accounted for 3% of revenue, licenses its trademarks on products, such as fragrances, beauty, eyewear, belts, cold weather accessories, jewellery, watches, coats, men's suits, swimwear, socks, furs, and ties, as well as licenses rights to third parties to sell the company's products in various geographical regions, such as Brazil, the Middle East, Eastern Europe, Asia, and Australia.

The company sells its products under the names of Michael Kors and various other related trademarks and logos. Michael Kors Holdings Limited was founded in 1981 and is based in London, the United Kingdom. In absence of historical full year results post 30 June 2017, brokers consensus forecast for the period ending 31 March 2018 have been used to calculate historical multiples.

Ralph Lauren Corporation

Ralph Lauren Corporation designs, markets, and distributes lifestyle products worldwide. As at 1 March 2017, the company operated in three segments: North America (57% of revenue), Europe (23% of revenue), and Asia (18% of revenue). The remaining revenue is classified under the Club Monaco brand. It offers apparel, including a range of men's, women's, and children's clothing; accessories, which comprise footwear, eyewear, watches, fine jewellery, hats, belts, and leather goods, such as handbags and luggage; home products consisting of bedding and bath products, furniture, fabrics and wallpapers, lightings, paints, tabletops, and giftware; and fragrances. The company segments its revenues It directly operates 466 retail stores and 619 concession-based shop-within-shops; and operates 105 Ralph Lauren stores, 22 Ralph Lauren concession shops, and 136 Club Monaco stores and shops through licensing partners. Ralph Lauren Corporation was founded in 1967 and is based in New York, New York.

G-III Apparel Group, Ltd.

G-III Apparel Group, Ltd. designs, manufactures, and markets women's and men's apparel in the United States and internationally. As at 31 January 2018, the company operated in two segments, Wholesale Operations (87% of revenue) and Retail Operations (18% of revenue). Its products include outerwear, dresses, sportswear, swimwear, women's suits, and women's performance wear; and women's handbags, footwear, small leather goods, cold weather accessories, and luggage. The company offers its products to department, specialty, and mass merchant retail stores. As of January 31, 2018, it operated 367 leased retail stores, which included 165 Wilsons Leather stores, 139 G.H. Bass stores, 51 DKNY stores, 8 Karl Lagerfeld Paris stores, and 4 Calvin Klein Performance stores. The company also operates Wilsons

Leather, G.H. Bass, and DKNY branded online stores. G-III Apparel Group, Ltd. was founded in 1956 and is based in New York, New York.

Guess?, Inc.

Guess?, Inc. designs, markets, distributes, and licenses lifestyle collections of apparel and accessories for men, women, and children. As at 3 February 2018, the company operated through five segments: Europe (42% of revenue) Americas Retail (35% of revenue), Asia (13%), Americas Wholesale (6% of revenue) and Licensing (3% of revenue). The company's clothing collection includes jeans, pants, skirts, dresses, shorts, blouses, shirts, jackets, knitwear, and intimate apparel. It also grants licenses to manufacture and distribute various products that complement its apparel lines, such as eyewear, watches, handbags, footwear, kids' and infants' apparel, outerwear, swimwear, fragrance, jewellery, and other fashion accessories. It sells its products through direct-to-consumer, wholesale, and licensing distribution channels. As of February 3, 2018, the company directly operated 1,011 retail stores in the Americas, Europe, and Asia. Its operated an additional 652 retail stores worldwide. The company also offers its products through its retail Websites. Guess?, Inc. was founded in 1981 and is headquartered in Los Angeles, California.

Oxford Industries, Inc.

Oxford Industries, Inc., an apparel company, designs, sources, markets, and distributes products of company owned and licensed brands, and private labels apparel products worldwide. As at 3 February 2018, the company segments its revenue by brands:

- Tommy Bahama, which accounted for 63% of revenue, sells men's and women's sportswear and related products
- Lilly Pulitzer, which accounted for 23% of revenue, sells women's and girl's dresses and sportswear, scarves, bags, jewellery, and belts, as well as footwear and children's apparel
- Lanier Apparel, which accounted for 9% of revenue, sells sources and distributes branded and private label men's apparel, including tailored clothing, casual pants and sportswear
- Southern Tide, which accounted for 4%, sells men's shirts, pants, shorts, outerwear, ties, swimwear, footwear, and accessories, as well as women's products

Oxford Industries, Inc. offers its products through its retail stores and e-commerce sites, department stores, national chains, warehouse clubs, specialty stores, specialty catalogues, and multi-branded e-commerce retailers. As of February 3, 2018, the company operated 166 Tommy Bahama stores, including 110 full-price retail stores, 18 retail-restaurant locations, and 38 outlet stores. Oxford Industries, Inc. was founded in 1942 and is headquartered in Atlanta, Georgia.

Fossil Group Inc.

Fossil Group, Inc., together with its subsidiaries, designs, develops, markets, and distributes consumer fashion accessories. The company's principal products include a line of men's and women's fashion watches and jewellery, handbags, small leather goods, belts, and sunglasses.

The company sells its products through company-owned retail stores, department stores, specialty retail stores, specialty watch and jewellery stores, mass market stores, e-commerce sites, licensed and franchised Fossil retail stores, and retail concessions, as well as sells its products on airlines and cruise ships. As at 30 December 2017, the company segments its revenue by geographies: Americas (47% of revenue), Europe (35% of revenue) and Asia (18% of revenue). As of December 31, 2017, it owned and operated 80 retail stores and 123 outlet stores located in the United States, as well as 208 retail stores and 133 outlet stores internationally. The company was formerly known as Fossil, Inc. and changed its name to Fossil Group, Inc. in May 2013. Fossil Group, Inc. was founded in 1984 and is headquartered in Richardson, Texas.

Ascena Retail Group, Inc.

Ascena Retail Group, Inc., through its subsidiaries, operates as a specialty retailer of apparel, shoes, and accessories for women and tween girls in the United States, Canada, and Puerto Rico. The company operates through six segments: Ann, Justice, Lane Bryant, maurices, dressbarn, and Catherines. It creates, designs, and develops a range of merchandise, including apparel, accessories, footwear, and intimates; lifestyle products comprising cosmetics and bedroom furnishings; and wear-to-work, sportswear, footwear, and social occasion apparel. The company also offers casual clothing, career wear, dressy apparel, and active wear, as well as special occasion and classic apparel. Its principal brands comprise Ann Taylor, LOFT, maurices, dressbarn, Lane Bryant, Catherines, and Justice brands. As at 29 July 2017, the company segmented it's reporting through four key segments: Premium fashion (35% of revenue); Value fashion (29% of revenue); Kids Fashion (20% of revenue) and Kids Fashion (15% of revenue). As of July 29, 2017, the company operated approximately 4,800 stores. The company was formerly known as Dress Barn, Inc. and changed its name to Ascena Retail Group, Inc. in January 2011. Ascena Retail Group, Inc. was founded in 1962 and is based in Mahwah, New Jersey.

Gerry Weber International AG

Gerry Weber International AG operates as a fashion and lifestyle company. It operates through Wholesale, Retail, and Hallhuber segments. The company engages in the design, production, wholesale, and retail of ladies wear products. It offers knitwear, shirts, blouses, trousers, skirts, and outdoor jackets; and accessories, such as caps, hats belts, gloves, shawls, scarves, ponchos, bags, shoes, eyewear, and jewellery products. Gerry Weber International AG offers its products under the Gerry Weber, Taifun, Samoon by Gerry Weber, talkabout, and Hallhuber brand families through retail stores and online shops. As at 31 October 2017, the company segmented it's revenues into three core segments: Gerry Weber Core Wholesale (34% of revenue), Gerry Weber Core Retail (45% of revenue) and Hallhuber Retail (22% of revenue). It operates approximately 1,270 company-managed stores and sales spaces, approximately 2,400 shop-in-

shops, and 270 franchised stores worldwide, as well as brand online-shops in 9 countries. Gerry Weber International AG was founded in 1973 and is headquartered in Halle, Germany.

Aeffe S.p.A.

Aeffe S.p.A., together with its subsidiaries, designs, produces, and distributes fashion and luxury goods in Italy, Europe, Russia, the United States, and internationally. As at 31 December 2017, it operated in two segments, Pret-a-Porter (76% of revenue); and Footwear and Leather Goods (35% of revenue).

- The Pret-a-Porter segment designs, produces, and distributes luxury pret-a-porter garments and lingerie, beachwear, loungewear, underwear, and swimwear for men and women under its proprietary brands, which include Alberta Ferretti, Philosophy, Moschino, Boutique Moschino, and Love Moschino, as well as brands licensed from other companies, such as Blugirl Folies, Cedric Charlier, and Jeremy Scott.
- The Footwear and Leather Goods segment designs, produces, and distributes footwear, small leather goods, bags, and matching accessories under the Pollini brand. This segment also grants licenses to other companies to manufacture Pollini branded products comprising umbrellas, foulards, and ties.

Aeffe S.p.A. was founded in 1972 and is headquartered in San Giovanni in Marignano, Italy.

Piquadro S.p.A.

Piquadro S.p.A. designs, manufactures, and distributes professional and travel leather goods in Italy and internationally. The company offers bags, backpacks, and briefcases, including notebook bags and backpacks; and men's and women's wallets, handbags, backpacks, and bags; and laptop bags and backpacks. It also provides travel items, such as laptop case trolleys, cabin luggage products, trolleys, beauty cases, duffle bags, and garment bags; and accessories comprising purses, envelope portfolios, key rings, umbrellas, belts, and cufflinks, as well as technological accessories. In addition, the company offers stationery products comprising cases, organizers and diaries, pens and pencils, and notepad holders. Piquadro S.p.A. sells its products under the Piquadro and The Bridge brand names. As at 31 March 2017, the company reported revenues under three different segments: wholesale (56% of revenue); DOS (37% of revenue), which refers to retail; and the Bridge (7% of revenue), an additional brand un Piquadro. The company operates a network of 117 outlets. The company was founded in 1987 and is headquartered in Gaggio Montano, Italy. Piquadro S.p.A. is a subsidiary of Piquadro Holding SpA.

PART TWO – FINANCIAL SERVICES GUIDE

Dated 5 July 2018

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Mr. Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 and Mrs. Joanne Lupton as an authorised representative of KPMG Corporate Finance, authorised representative number 449593 **(Authorised Representative)**.

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.
This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products.
The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Arnold Bloch Leibler (Client) on behalf of the Deed Administrators to provide general financial product advice in the form of a Report to be included in Explanatory Statement (Document) prepared by Client in relation to the Manderrah Proposal.
You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.
KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.
You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.
You should also consider the other parts of the Document before making any decision in relation to the Manderrah Proposal.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance $275,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.
KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional

advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.
Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.
From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.
Over the past two years, the KPMG Partnership has received nil professional fees from Vicars Entities, and nominal fees from OrotonGroup Holdings Limited. None of those services have related to the transaction or alternatives to the transaction.
No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.
Furthermore, neither KPMG Corporate Finance, KPMG Financial Advisory Services (Australia) Pty Ltd, the KPMG partnership, KPMG International Cooperative, a Swiss Entity nor any affiliated entity is presently a substantial creditor of OrotonGroup.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.
Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.
Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:
Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone: 1800 367 287
Facsimile: (03) 9613 6399 Email: info@fos.org.au.
The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

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