



AuMake International Limited (ASX:AU8) HY20 results presentation

12 February 2020



AuMake
International Limited

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Our business



AuMake and Broadway are leading retailers servicing Asian consumers living and visiting Australia & New Zealand



17 stores in Australia & New Zealand



46.7% gross margin; material improvement in HY20



50+ long term Chinese travel agent relationships **delivering customers to our stores**



~1400 Asian tour groups through stores; +98% pcp

The Board



Mr Keong Chan
Executive Chairman

Bachelor of Commerce and Master of International Customs Law and Administration

Mr Chan spent his early career working with Big 4 accounting firms in Canberra, Sydney and Perth and has significant corporate experience in capital raisings, initial public offerings, mergers and acquisitions, and takeovers and divestments.

Mr Chan is a member of the Australian Institute of Company Directors.



Mr Quentin Flannery
Non-Executive Director

Bachelor of International Business with a minor in Mandarin

Mr Flannery has a wealth of commercial and China experience, with more than ten years' working on exports into Asia in his previous role working in the marketing department of a large Australian based Chinese coal mining company and his current position as a Director in the Flannery family business.



Mr Jiahua (Joshua) Zhou
Managing Director

Bachelor of Management and Master of International Business

Mr Zhou is the founder of AuMake. Mr Zhou worked in the Australian tourism industry for 10 years in roles which included the coordination of business and government delegations from China.



Mr Oliver Horn
Non-Executive Director

Bachelor of Business Administration (with Honours)

Mr Horn was most recently Managing Director of Swisse Wellness for Australia and New Zealand (ANZ) and North America, having previously held senior operational leadership positions at Treasury Wine Estates across ANZ, Europe, Middle East and Africa.

Mr Horn is a member of the Australian Institute of Company Directors.



Mr Jacky Yang
Executive Director

Mr Yang is a highly experienced Asian focussed tourism professional with over 20 years of experience in the Asian tourist retail industry. During this time he cofounded and built the Broadway business to a turnover of over \$30 million per annum.

HY20 results summary

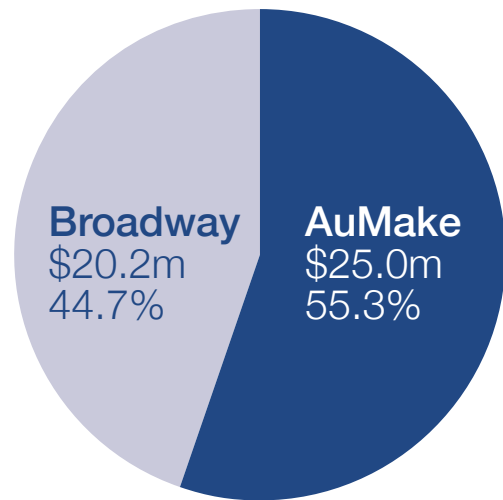
- The acquisition of Broadway during HY20 was a pivotal point in AuMake's evolution
- Records set across all financial metrics in HY20
- Underlying EBITDA positive for the first time
- Cash on hand increased to \$12.1m due to strong operating cash inflows of \$6.3m
- Inventory reduced in the period from \$5.1m to \$3.9m, highlighting operational efficiencies

	HY20	HY19	% Movement
Revenue	\$45.2m	\$21.9	107%
Gross Profit	\$21.1m	\$4.2m	402%
Gross Margin	46.7%	19.2%	143%
Underlying EBITDA¹	\$0.4m	(\$2.4m)	
Statutory NPAT¹	(\$0.5m)	(\$3.0m)	

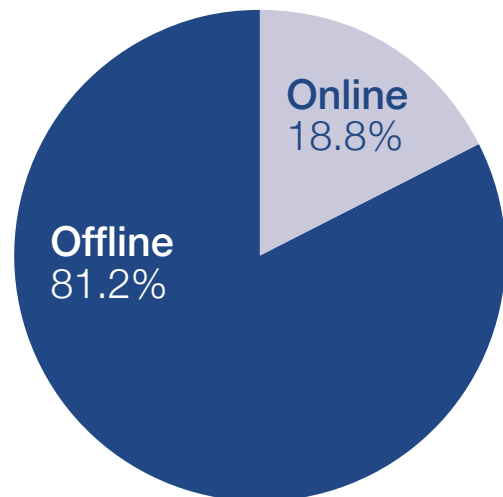
1. Note: To enable a more effective comparison of results versus HY19, the HY20 underlying EBITDA result shown above has been adjusted to exclude the impact of the adoption of AASB 16. The statutory results for HY20 are shown in Appendix 1, along with a reconciliation of the impact of the adoption of AASB 16.

Revenue commentary

Total revenue breakdown



Total online/offline revenue breakdown



Broadway store network

- 8 stores (Australia & New Zealand)
- Customers – Asian tour groups

Key attributes:

- Relationships with 50+ travel agents in China who **deliver** Asian tourists to our stores
- Exclusive high gross margin products



AuMake store Network

- 9 stores (Sydney)

Key attributes

- Customers – Local customers & Free Independent Travellers (FIT)
- Strategic store locations targeting Asian customer demographics
- LFL store revenue +19.8% pcp*
- Online contributed 34% of AuMake sales, totalling \$8.5m in HY20
- Strong word of mouth marketing via social platforms (e.g. WeChat)

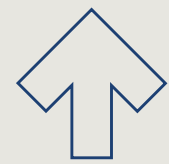
*Seven (7) stores – George Street, World Square, Haymarket (2), Burwood, Eastwood and Pitt Street

Key Broadway growth drivers



Number of tour groups from China by:

1. Maximising existing 50+ travel agent relationships in China
2. Expanding network by up to a further 100 travel agents in China



Conversion of tour group visitation into revenue:

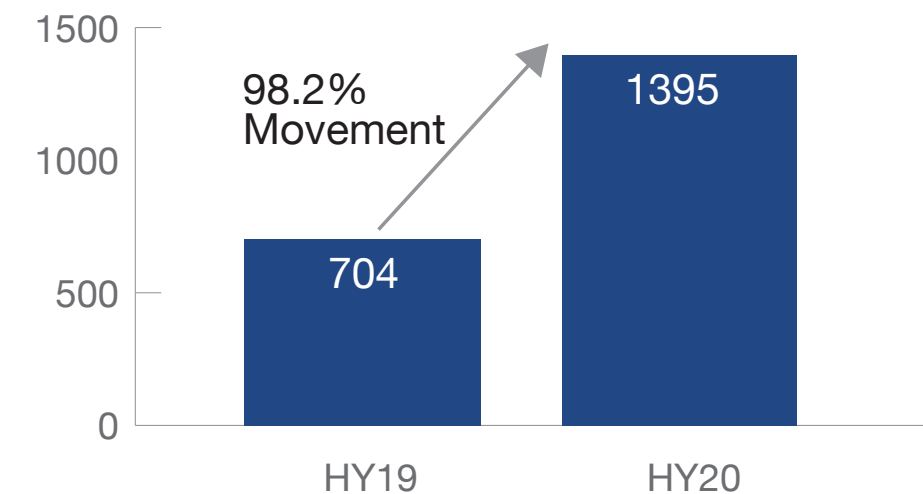
1. Asian tourists delivered **directly** to our stores
2. Increase spend per tour group by enhancing the retail experience



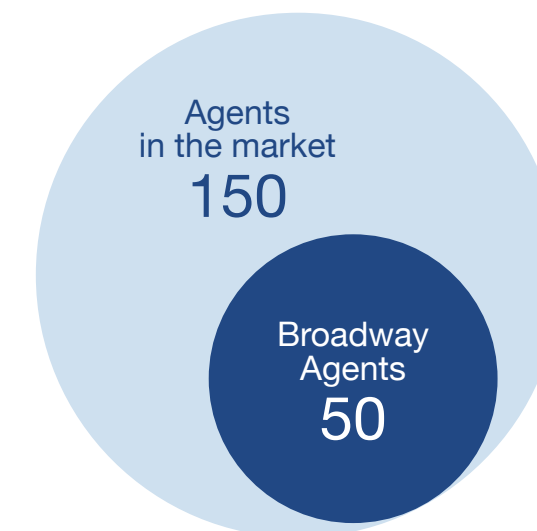
High margin product range and offering

Revenue growth for the foreseeable future will be driven by increasing the **number of tour groups**, not number of stores; ample latent capacity at store level

Number of tour groups



Travel agents in market

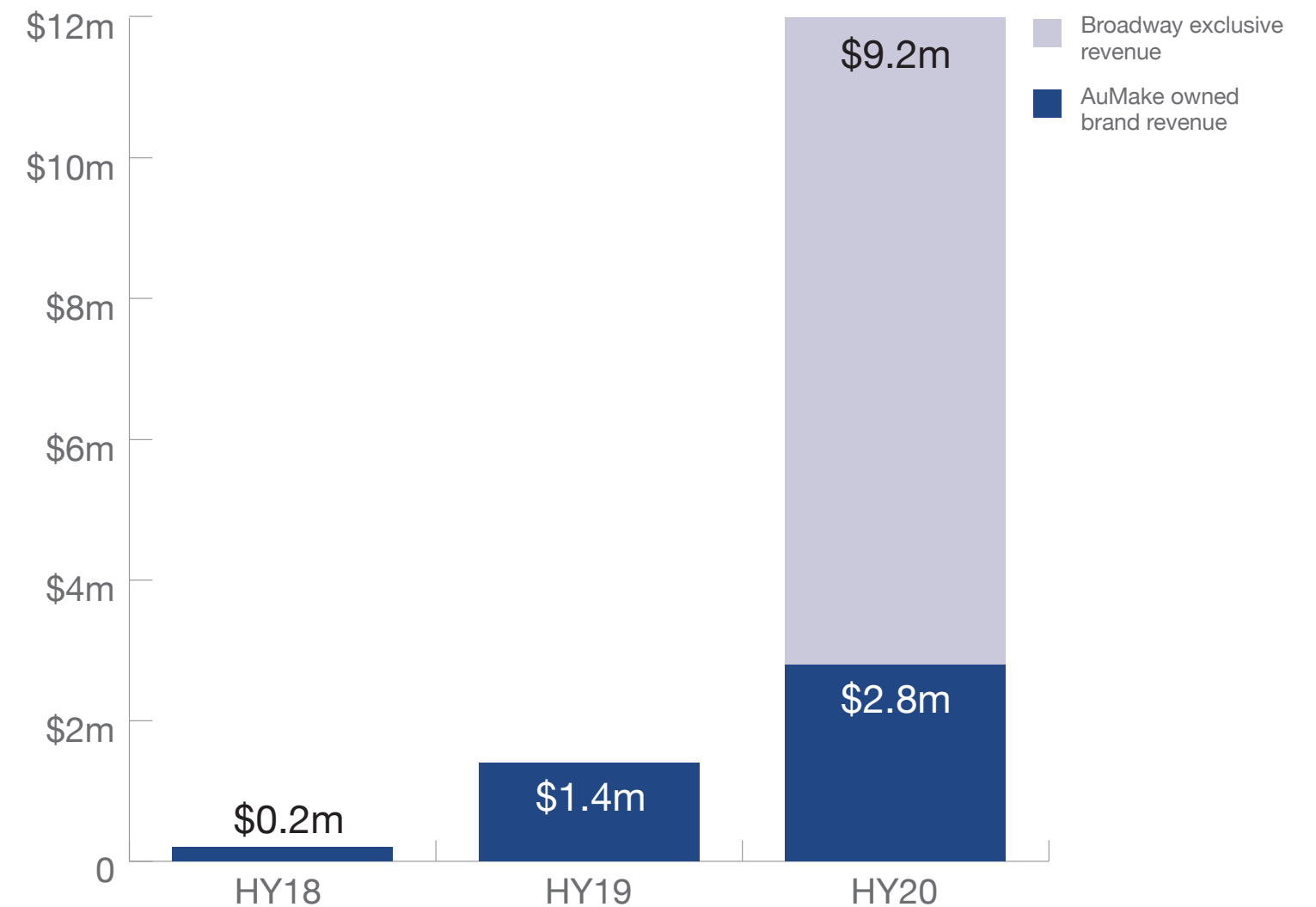


Gross margin commentary

Gross margin

- 143% pcp increase (HY20 46.7%; HY19 19.2%) in gross margin due to:
 - Impact of exclusive high margin brand product sales attributable to the acquisition of Broadway
 - AuMake’s high margin, owned brand products now available in Broadway stores
 - Increased customer appetite from Asian FIT for new high margin products

AuMake owned and Broadway exclusive brand product sales driving gross margin expansion



EBITDA commentary

- Transformational impact of Broadway acquisition during HY20
 - Total gross profit **grew faster** than Cost of Doing Business (“CODB” was 46.0% of total revenue) (including administration, labour, rent, marketing and travel)
- Key cost improvement initiatives implemented during the period including:
 - Resetting cost base
 - Realisation of immediate acquisition synergies
 - Closure of 4 lower EBITDA margin stores
- A key factor of EBITDA performance is optimising marketing expenses (including commissions paid to travel agents) which currently comprises 27.1% of revenue
 - Management are exploring a number of strategies which will improve **operating leverage**

	HY20	HY19	HY18
Gross Profit (including other income)	\$21.2m	\$4.4m	\$1.2m
CODB	\$20.8m	\$6.8m	\$2.5m
Underlying EBITDA	\$0.4m	(\$2.4m)	(\$1.3m)

Note: To enable a more effective comparison of results versus HY19, the HY20 underlying EBITDA result shown above has been adjusted to exclude the impact of the adoption of AASB 16. The statutory results for HY20 are shown in Appendix 1, along with a reconciliation of the impact of the adoption of AASB 16.

Growing addressable market

AuMake currently only services a fraction of the available tourist retail addressable market

Number of Chinese tourists per annum (year end to Sept 2019)

Number of tourists per annum (year end Sept 2019)

Korea	250,000
Taiwan	180,000
Thailand	93,000

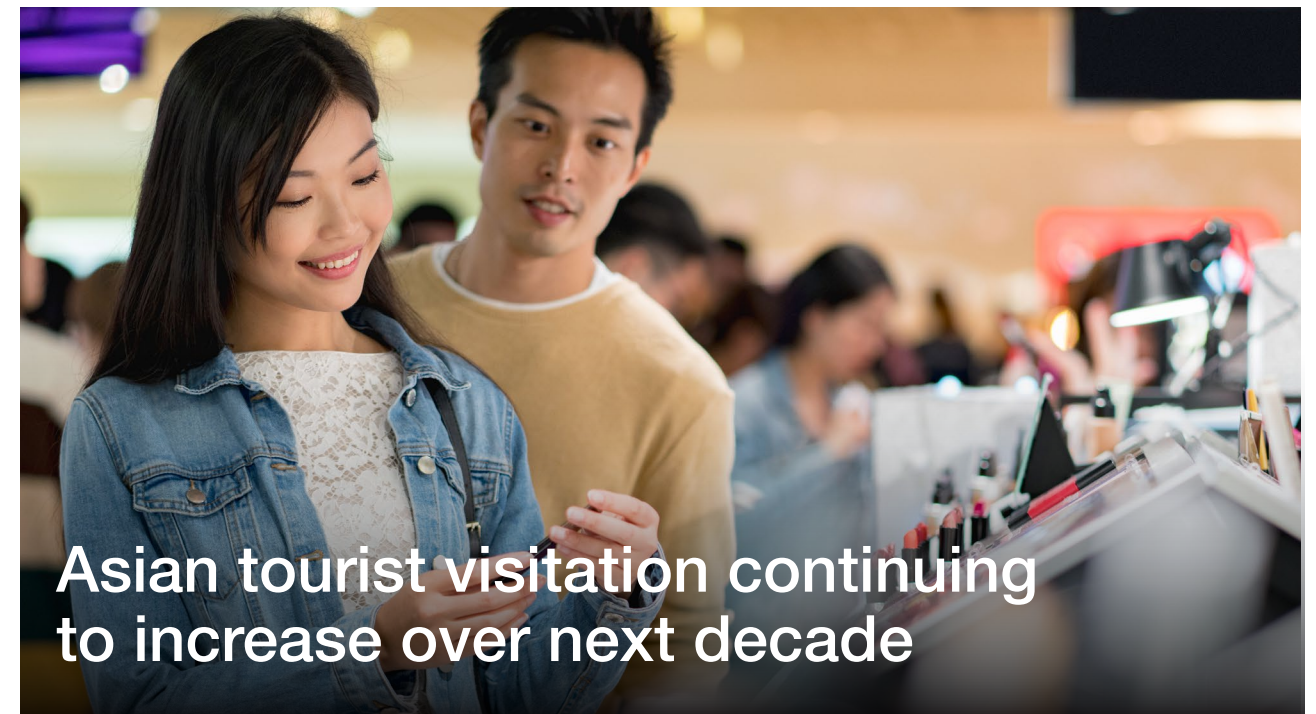
1.3m
Chinese
tourists

● 4% AuMake
~50,000 tourists

Source: Tourism Research Australia

Chinese and Korean tourists are No. 1 and No. 2 in relation to average retail spend in Australia:

- Chinese tourists – \$1,333/trip
- Korean tourists – \$834/trip



Asian tourist visitation continuing to increase over next decade

Sustainable competitive advantage

Asian consumers and travel agents – our sustainable competitive advantage



- We are an Australian company that has deep experience in dealing with the unique retail tastes of Asian tourists
- Focus on providing premium products, from aspirational brands and a rewarding retail experience that meet language and cultural expectations
- We know the type, look, price and function of products that appeal to Asian tourists
- We have deep connections and relationships with Asian travel industry leaders
- Broadway has developed a strong and trusted reputation over the last 20 years, which attracts a significant number of tourists to our stores

2H20 priorities

Improving the retail experience for our customers

- Focus on making the shopping experience amazing and authentic (visual merchandising, product portfolio, store staff training etc.)
- Maximising store operational efficiencies (inventory management, store rostering, etc.) to maximise profitability

Expanding Asian travel agent network

- Seeing continued tour group growth from existing 50+ relationships with Chinese travel agents
- Potential to triple the number of Chinese travel agents to 150 who are involved in the ANZ tourist market
- Continued growth in our relationships with Korean travel agents

Synergies

- Continued realisation of synergies from Broadway acquisition
- Further streamlining of corporate and operational costs



FY20 outlook

Short term challenges due to impact of coronavirus on Chinese visitation to Australia

- Company will continue to update the market as material information emerges
- Management successfully navigated SARS in 2003:
 - AuMake is well positioned to assess any potential consolidation in the in the Asian tourist industry
- Ability to adequately manage costs and cash outflow for the foreseeable future given the nature of the AuMake business

The medium to long term market outlook remains positive

- AuMake to establish itself as the pre-eminent retail brand in ANZ for Asian tourists
- Increase in Asian tourist visitation over the next decade (Tourism Research Australia)
- Several appealing post acquisition growth drivers to be realised over next 12–24 months

How important is Chinese tourism to Australia?

Chinese tourists now spend \$12bn per annum and account for over 15% of arrivals*



43 Source: * ABS - 3401 Nov 2019, Travel Tourism Australia March 2019

Schroders

Appendix 1 – HY results comparison

AASB16: Profit and loss impact

	HY20 Underlying	Recognition of AASB16 impact	HY20 Statutory	HY19 Statutory
	\$000'	\$000'	\$000'	\$000'
Income statement as per financials:				
Revenue	45,184	–	45,184	21,859
Cost of sales	(24,084)	–	(24,084)	(17,654)
Gross profit	21,100	–	21,100	4,205
Other income	95	–	95	183
Total operating costs	(20,782)	1,529 ¹	(19,253)	(6,802)
EBITDA Profit	413	–	1,942	(2,414)
Depreciation	(319)	(1,322) ²	(1,641)	(275)
Finance costs	(1)	(446) ²	(447)	–
Other expenses	(319)	–	(319)	(296)
Loss before income tax expenses	(226)	–	(465)	(2,985)
Income tax	–	–	–	–
Loss after income tax expense for the year	(226)	–	(465)	(2,985)
Exchange difference on translation of foreign operations	(56)	–	(56)	25
Net Loss After tax	(282)	(239)	(521)	(2,960)

1. Reversal of operating leases expenses

2. Recognition of AASB 16 depreciation and interests

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