MOSAIC BRANDS LTD

GROUND FLOOR
61 DUNNING AVENUE
ROSEBERY NSW 2018

T: 1300 728 980
ABN: 96 003 321 579

Company Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000
Dear Sirs

2020 Annual General Meeting – Chairman and Managing Director Addresses

Please find attached the addresses to be presented at today's Annual General Meeting by our Chairman, Mr. Richard Facioni, and our Managing Director, Mr. Scott Evans.

Yours faithfully

Luka Softa
Company Secretary

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CHAIRMAN'S ADDRESS

Once again, ladies and gentlemen, I'd like to welcome you all and thank you for joining us at Mosaic Brands Limited's annual general meeting for the year ended 28 June 2020.

In a first for Mosaic Brands, today is a completely virtual AGM – very much a sign of the times.
I'll start with a summary of the Group's performance during the year and outlook. I'll then hand over to Scott to report on operational progress, the opportunities before us and current trading.

After four consecutive years of consistent growth and profitability, the last 12 months have been without doubt the most challenging Mosaic Brands has experienced.
The combination of devastating bushfires followed by the COVID-19 pandemic has impacted all of us in many ways and changed the world in which we live. For Mosaic, these events have been felt particularly by our loyal customers and indeed forced many into hibernation.

There are no levers, strategies or incentives that could have changed that behaviour.

Rather, we were understanding and supportive of it, with our response to these major challenges focussed on putting the wellbeing of our customers and team first and foremost, many of whom are among the most at-risk group for COVID-19.
As one of Australia's largest retailers I am proud that we were among the biggest donors to the bushfire recovery which impacted so many of our communities, along with being one of the first national retailers to shutter our stores for health and safety reasons in the fight against COVID-19.
For many of our customers, a trip to the shops is an important part of their regular social interaction. They are often greeted by name when they walk through the door of one of our stores in small towns and large.

The loss of that opportunity to have a chat or get out of the house has been incredibly hard for both our customers and our frontline retail team during months of lockdowns and restrictions, particularly in Victoria where many stores remain closed until just yesterday.
So in 2020 your company has found itself in an unfamiliar position, for any retailer, where our customers have wanted to visit our stores but couldn't – and we're saying by and large that's been for the best. Revenue and profit needed to take a back-seat to the health and safety of our customers, store teams and wider communities.

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For your Board and senior management, given all the things we couldn't control or influence as a company in the last year, and more so the last 6 months, we have focused on rapidly adapting to a very different retail sector and positioning the company for the future.

We have a very clear strategy to ensure a return to sustainable profit. Scott will touch on that today and we will address it in more detail at our half year results in February. Let me today though step through three key developments that has shaped our thinking regarding that strategy COVID has accelerated existing retail trends, but none more so than the structural shift to online, and this is particularly evident amongst the Mosaic customer segment.

We're in no doubt this online shift is permanent.

This has implications for our physical retail footprint, and we've taken well publicised steps to remodel our store portfolio. Stores are and will always remain a central part of Mosaic Brands and serving our customers. But not at the cost of unrealistic rents, nor landlord expectations that pre-date the internet.

In August we informed the market that up to 500 of our 1300 plus store portfolio nationally could be closed if realistic rental agreements were not struck.

To date we've closed 73 stores as a direct result of this. We are particularly sensitive to the impact these closures have on our store teams and we will seek to redeploy team members wherever it is practical and feasible to do so.

In response to this structural shift we are seeing, we are aligning our operations along three distinct business units. Namely, our traditional retail business, our online business and our Rivers business.

As I mentioned, bricks and mortar retail will always be a central part of Mosaic's business, and these stores will remain an important part of our customers' lives.
Our retail business, and its extensive operating infrastructure, underpins our burgeoning online business, which is not constrained by our traditional product offering nor limited to our traditional customer base.

Whilst we were already making big strides online, we've seen a dramatic acceleration in our online offering in response to the pandemic.
Our online business now offers over 250,000 different SKUs and continues to grow in this regard.

In the last financial year, our online sales reached almost $100 million and were up 15%. In the first quarter of this financial year, online sales continued this trend and were up 31% against the prior year.

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We are particularly excited by the potential of this surging "business within a business". And, whilst we have traditionally been focussed on women's apparel for our target demographic, our Rivers business has shown and continues to show promise as an off-price retailer offering international brands at low cost, with its target demographic being any Australian who loves a bargain.

The shared services and infrastructure supporting all these businesses will remain integrated, lean and efficient. That gives us a strong competitive advantage. The second development we expect to see in the near term is a surge in retailers chasing sales and discounting stock.

Over the past 2 years we have been vocal about our core focus on sustainable gross margin growth. Never has this strategy been more relevant and critical than now, given the continued depressed customer foot traffic in centres as a result of COVID-19.
We know that some retailers are reporting strong sales right now but believe this pandemic will flatter to deceive.

We believe from purely a retailing perspective; the true impact of the virus will become evident with the inevitable end of the stimulus economy. While we ourselves have benefited from them, the twin props of stimulus and regulation that are holding up our economy will not be here forever.

There will be an across the board retail reckoning as consumers become more discretionary in their spending choices.

Retailers who offer value, manage stock levels well and have invested in customer relationships will, we believe, be in a far stronger position than those who rely on constant discounting to boost sales. That is the approach we will continue to take.

That means when we look at the financials internally, margin is the first we turn to. It is one you will continue to hear us speak about rather than chasing sales growth at any cost.

Combined with a more efficient inventory position, we are seeing the benefits of this focus on gross margin reflected in our bottom line and cash flows. Scott will provide further detail on our progress in this regard shortly.

Finally, we are confident over time our customers will stir from hibernation and resume spending.

Our brands are loyalty brands, though we never take that loyalty for granted.
Exactly when those customers will have the confidence to return in-store is still unknown as restrictions continue.

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What we do know however is that our customers will return and, subject to the key November and December trading period, we expect to return to profitability in 2021.

It is frustrating for all shareholders and for your board and management that the track record of profitability built up over the last four years is not reflected in our 2020 financial results that were derailed by bushfires and COVID.

The only way to change that is not through promises but rather action and you will hear shortly from Scott more detail around the steps we've taken in this regard.

I'd like to conclude by acknowledging each and every one of our team members at Mosaic for all they have done in what has been a hugely challenging year for our company and our nation.

They reflect the communities they work and live in by adapting to change, looking out for each other and having a determination to push through tough times.

I and my fellow Directors are confident Mosaic Brands will push through its toughest year and resume the path of profitability and growth.
I will now hand over to Scott.

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CEO/MANAGING DIRECTOR'S ADDRESS

Thank you Richard,

Good morning and welcome everyone.

As Richard stated, prior to COVID-19 Mosaic Brands delivered 4 years of consistent growth in both sales margin and most importantly EBITDA, thus having an unblemished record in delivering for its investors

Notwithstanding the sever bush fire season between November and January directly impacting more than 270 of our stores and team members, MOSAIC still continued its strong growth and delivered a $32.7m EBITDA in H1 (+12.4%).

Having navigated the impact of the fires the Group looked forward to a strong second half.

This was utterly derailed as throughout March the seriousness of the COVID 19 pandemic became more and more evident.

As this event unfolded our primary focus was to ensure the safety of both our team and customers who are among the most vulnerable to the virus, as such we were one of the first retailers to take decisive action to close all stores on the 26th of March 2020.
During the closure period it was clear through the acceleration of online and the government stimulus packages that retailing would be very different in a post COVID world.

As a result, we bunkered down, reduced stockholding to minimise capital tied up in the balance sheet, challenged our cost of doing business and adjusted our core strategies to ensure we thrive and return to consistent profitability which we had previously been delivering for our investors before the pandemic.

Online sales accelerated in H2 and grew by over 80% during the store closure period and 36% for the entire second half, delivering a total online revenue for the year of $93.7m representing 15% of sales.

We also closed the year with inventory reduced by 50% or $83 million and Cost of Doing Business was reduced by approximately $50m compared to the year before.

We achieved this closing position by focussing exclusively on what we could control during a year of extraordinary circumstances, and more importantly we aimed to set Mosaic up for success in FY21.

I'll now talk to our financial performance for July to Sept this year, how we expect retail to change and the strategies we are deploying to ensure our business thrives in FY21.

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As we have reported over the past two years, a core strategy for Mosaic is to improve gross margin rather than chase sales at any cost. This has never been more necessary, or powerful and has resulted in Mosaic delivering comp store margin of -5.2% for the period against sales of -19%. This highlights the unique strength of our product collections and customer service.

This strong margin result and the post pandemic cost initiatives have resulted in the group achieving EBITDA growth of $8.3m against the same quarter the previous year.

It is also important to note the support the Group has received through the JobKeeper stimulus program has largely offset the shortfall in Margin due to Victoria having been closed for the vast majority of the first quarter.

We have also maintained a solid cash position, holding $69.3m in cash (net cash after debt $12.5m) at the end of September. In addition, of the $49m occupancy costs provision taken at the end of the financial year we have concluded over 70% of negotiations and delivered material reductions as anticipated.

Every year our digital sales have been increasing, but as we all now know, this is accelerating dramatically.

As I stated earlier online sales grew 15% in the last financial year to $93.7 million and I am pleased to report that this strong trend has continued throughout the first quarter delivering +31% growth on the prior year.

Our core focus on category and SKU expansion remains on point and is delivering exceptional results. In August I reported we had grown our offering to 150k SKUs across our nine websites and I am delighted to advise that over the past 8 weeks this has grown to more than 250k SKU's spanning 14 categories.

During the last 12 months Ezibuy has continued to improve with CODB savings of $19.9m and an improving balance sheet.

Although EziBuy remains an important part of our online retailing mix, in the current uncertain environment all parties have agreed that it is prudent to extend our option to buy the remainder of the business by six months.

Moving to our retail store portfolio

In recent months we have been vocal in highlighting the changed customer shopping behaviour as a result of COVID-19 and the impact this is having on foot traffic across our nations shopping centres. This was further compounded with all Victorian stores being closed for almost the entire first quarter which represents approx. 18% of the Mosaic retail portfolio.

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However, we are confident our shoppers will return, because as Richard said earlier, our customers are incredibly loyal to our brands and as a segment are mostly less affected by the inevitable winding back of JobKeeper.

The nature of bricks & mortar retail has changed forever and consistent with our update in August we will move aggressively to close stores where the landlord has pre COVID-19 rental expectations.

We will not maintain lease agreements that don't match the needs of our customers and again as Richard pointed out, we have already closed 73 stores over the past 3 months and expect further closures of up to 250 stores nationally by the end of this financial year.

We are very conscious of the impact this has on our people along with the communities they serve. We are providing support to all impacted team members as well as offering redeployment opportunities where possible.

As I alluded to previously, the retail environment in Australia has fundamentally changed for the future. A core asset of Mosaic is the loyalty of our customers to our brands. Supported by the strength of our 5.2 million strong customer database we drive hard to continually innovate and improve on customer experience.

Our move to sell discount designer brands through Rivers continues to expand rapidly, the launch in July of our impulse counter strategy continues to gain momentum and we are excited to be launching a beauty destination across all our brands in November along with other innovations which will further support our return to growth.

Despite the disruption of the COVID-19 outbreak, we are very proud of our ability to continue the progress made on our responsible sourcing strategies and requirements under the Ethical Trade Initiative, Ethical Raw Material Initiative and the Modern Slavery Act, as these are all core to our company values.

We have not only maintained, but also expanded our independent audit requirements across all clothing and footwear factories. As part of this we have also enhanced the logging and recording traceability to incorporate COVID-19 changes and continue to develop our teams through comprehensive ethical and responsible sourcing training programs.

Finally I would also like to take this opportunity to thank all team members across the Mosaic Group. I know it has been a particularly tough year for all of us, we have faced challenges which we could not have dreamed of. However I am proud to be part of your team and am humbled by your resilience and determination to continue to keep our customer at the heart of everything we do.

So in summary I'd like to remind everyone again about our track record at Mosaic Brands.

In the last 6 years we have been consistently effective in the delivery of our plans.

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We have quickly turned around underperforming brands and have rapidly expanded both revenue and EBITDA

We have not shied from making hard decisions and we are continuing to re-engineer our business to meet the needs of both customers and investors.

This crisis has forced us to re-examine our business and accelerate our core strategies.

We are focussing on digital, getting our store mix right, delivering an improved integrated customer experience across our loyalty brands to ensure we come out of this stronger.

I will now hand back to Richard.