24 August 2017

THE PAS GROUP LIMITED FY2017 RESULT[1]

The PAS Group Limited ("PAS", "The Group" or "The Company") today reported sales for the full year ended 30 June 2017 of $261.7 million and EBITDA of $18.8 million[1], which is within the range of $18.5m-$20.0m provided in the business update on 19 May 2017.

Retail sales grew 3.7% to $140.9 million driven by new stores opened during FY2017, the full year impact of stores opened during FY2016 and continued strong growth of 41% in online sales. Like-for-like sales in Review and Black Pepper were below the prior year impacted by the industry wide traffic headwinds and subdued consumer sentiment.

Wholesale sales of $120.9 million were down 9.5% on FY2016 impacted by reduced and delayed Designworks licensed orders from some key department store customers. JETS Swimwear and the Designworks Sports Division both performed strongly continuing the trend in H1 FY2018.

The Company continued to drive retail sales growth through investment in retail infrastructure, new stores opened in FY2016 and FY2017 and expanding the JETS business which resulted in increased costs for the year. Included in the EBITDA result is revenue of $1.7m which relates to the release of deferred and contingent consideration resulting from the conclusion of the JETS acquisition. NPAT from the continuing business was $8.3 million in part reflecting the higher annual depreciation charge which resulted from increased capital investment in online and new stores.

Eric Morris, Chief Executive Officer commented: "Trading conditions remained challenging through the second half of the year, characterised by continued industry wide traffic headwinds and promotional activity, weak department store sales and overall subdued consumer confidence. The Group continued to make progress against its strategic objectives which included strong online sales growth, the continued expansion of our loyalty program across the retail brands, category extensions and acquiring a new key sports license.

Dividends

The business continued to generate positive cash flows with a cash balance of $4.9 million at 30 June 2017. The Board has declared a final dividend of 1.5 cents per share fully franked and payable on 6 October 2017 with a record date of 15 September 2017. Total dividends declared for the year were 4.1 cents per share fully franked.

(1) The financials in this release are reported on a continuing business basis in accordance with the accounting standards.

OPERATIONAL HIGHLIGHTS

Retail Segment

- Continued growth in online, up 41% now represents 12.4% of sales, driven by new websites launched for JETS, Black Pepper and White Runway along with the launch of Myer Online dropship for Review. This increase was on top of the 149% growth achieved in FY2016;
- 16 new stores opened during the year taking the total number of stores to 258 including the roll out of Review concessions in David Jones with 4 stores launched in FY2017;
- Targeted investment in the refurbishment of 33 stores completed, ensuring they remain current with our latest concepts;
- Loyalty membership grew to 754,000 members, an increase of 220,000 members since 30 June 2016. Loyalty sales represent c.76% of total retail sales;
- Continued strong growth in JETS online in Australia and internationally, particularly in the US with online now representing 11.7% of JETS sales; and
- Stock was well managed across the retail business finishing the year with clean inventory levels which did not necessitate additional late season clearance and positioned the business well for the early launch of new season styles.

Wholesale Segment

- Strong growth in JETS wholesale in the US;
- Continued strong growth in the Designworks Sports equipment and Footwear Division and the Toys"R"Us Japan business;
- In other Wholesale, Yarra Trail experienced growth and Black Pepper was in line with expectations with the continued shift from Wholesale to Retail; and
- Continued pipeline of new brand and license opportunities in Designworks including the acquisition of a new major sports license.

Metalicus Sale

On 30 September 2016 the Company completed the sale of its underperforming Metalicus business. The gain on sale was immaterial, however the sale released c.$3.0m of working capital.

GROWTH STRATEGY

The Group has a range of new initiatives planned for FY2018 and beyond. Consistent with FY2017, going forward there is a significant reduction in new standalone store openings and continued investment in digital, focusing on website and mobile platform upgrades and new marketplace opportunities.

Online and Loyalty

- A major relaunch of the Review online store on a new platform is planned for Q3 along with an upgrade to our loyalty platform.
- The planned online launch of Review on two international marketplaces including Amazon and Alibaba (Tmall Global) provides an opportunity to access new markets.
- The planned launch of the other Group retail brands on the Amazon marketplace which will broaden their reach in Australia and international markets.
- The launch of Everlast online driving direct to customer sales featuring a broad range of Everlast Boxing and Fitness equipment.
- The launch of the new BOD by Rachael Finch Activewear range both with Department Stores and online.

New Stores & Refurbishments

- 13 selected new stores planned for FY2018 (including David Jones concessions).
- The rollout of a further 8 Review concession stores in David Jones including the David Jones online store which will enable Review to access a new customer base.
- The launch of new “future store” concepts for Review and JETS. New concepts will be developed for both stand alone and concession stores with rolling concession store upgrades in Myer and David Jones throughout the year to reflect the new look.

International Expansion

Plans are progressing for continued growth in the JETS brand through both wholesale and online in international markets with a particular focus on the US.

Acquisitions – Bondi Bather

On 10 August 2017 the Group entered an agreement to acquire the Bondi Bather Swimwear brand as a strategic addition to the JETS swimwear division. The brand will provide complementary access to a younger customer segment.

CONCLUSION

Eric Morris said: "Whilst trading conditions in the first 8 weeks of the current financial year remain challenging with comp store growth below prior year, the Group continues to deliver against the growth strategy with a range of initiatives underway to drive sustainable revenue growth. In particular, the planned digital investments and marketplace launches with Amazon and Alibaba represent new opportunities. Following the completion of the recent takeover offer, the company looks forward to working with the new Board in the ongoing development of the strategy and execution of these valuable new growth initiatives."

With no debt and healthy cash flows, The PAS Group is in a strong financial position with the capacity to continue to evaluate and pursue a broad range of value enhancing initiatives."

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