The PAS Group Limited – FY2017 Results Briefing

ABN 25 169 477 463

24 August 2017

FY2017 Results Summary

Financial Summary (i)

- Total sales of $261.7 million
  - Retail sales up 3.7%
  - Wholesale sales down 9.5%
- Continued growth in online up 40.8% on top of the 149% growth achieved in FY2016
- Gross profit margin well managed, up 1.0% to 55.9%
- EBITDA from continuing business of $18.8 million. The result was impacted by challenging trading conditions throughout the year, continued promotional activity, weak department store retail sales and delayed Designworks licensed orders from some key department store customers
- Like-for-like retail sales below prior year impacted by industry wide traffic headwinds and subdued consumer sentiment
- Debt free with net cash on hand of $4.9 million
- EPS of 6.0 cents per share, final dividend declared of 1.5 cents per share fully franked, funded from free cash flow
- Total dividends declared of 4.1 cents per share representing a payout ratio of 73.0%

Operational Summary

- Sales growth driven by online, new stores, and the annualisation of stores opened in FY2016
- New store roll-out continued with 16 new stores opened in selected locations and 258 retail sites as at 30 June 2017
- Targeted refurbishment of 33 stores
- Continued strong growth in loyalty programs; membership up 220,000 (41%) to 754,000
- Clean inventory levels ensuring no requirement for excessive late season clearance
- Continued investment in infrastructure for JETS, Online, Loyalty and Black Pepper retail
- Divestment of Metalicus business freed up c.$3m of working capital

	FY2017	FY2016
Sales	$261.7 million	$269.4 million
EBITDA	$18.8 million	$23.9 million
NPAT – Continuing	$8.3 million	$11.3 million
NPAT – Total Business	$7.7 million	$10.6 million

(i) All statutory financials are presented on a "Continuing Business" basis unless otherwise noted. See Continuing to "Total Business" reconciliation at Appendix A

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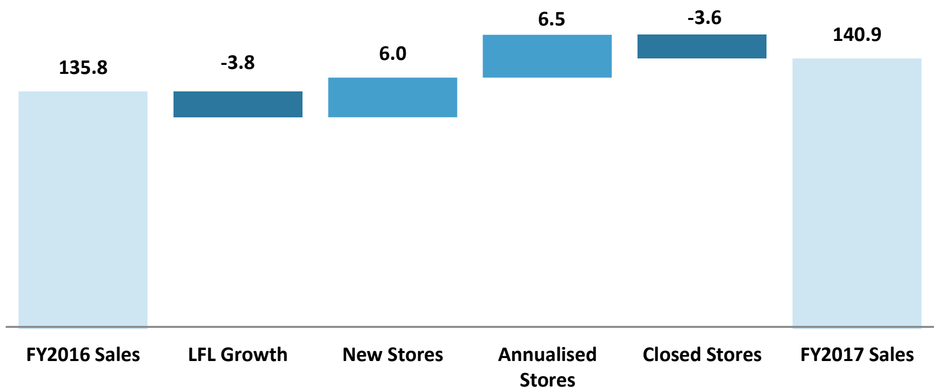
Operational Highlights – Retail Segment

Summary

- Retail sales growth of 3.7% to $140.9m
- Growth due to:
  - online sales growth of 40.8% in addition to the 149% growth achieved in FY2016
  - the impact of the 16 new stores opened in FY2017
  - the annualised impact of new stores and closed stores in FY2016

FY2016 to FY2017 Retail Sales Bridge ($ million)



Retail Sites

- 16 selected retail sites opened in FY2017:
  - Black Pepper; 8 stores
  - Review; 2 stores, 6 concessions
- 33 store upgrades completed
- Opened 2 Black Pepper flagship stores in Miranda and Marion and a new Review flagship store in Chadstone
- Active renewal of our store portfolio, with 9 stores closed at lease end

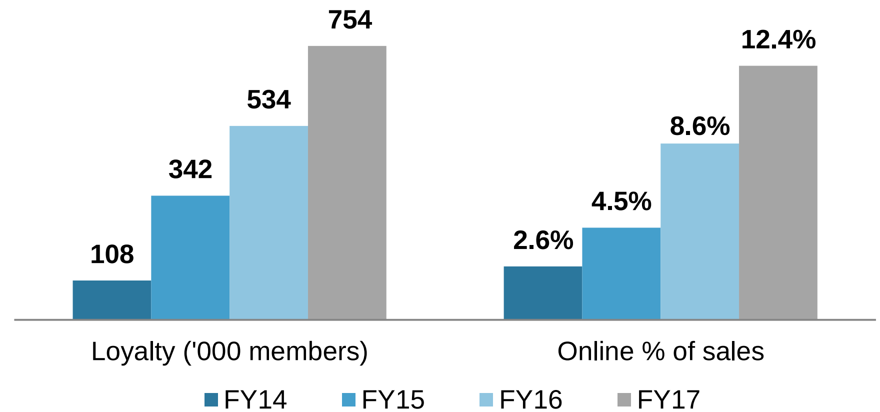
Total Retail Sites by Brand

	FY2016	Opened	Closed	FY2017
Black Pepper	141	8	(5)	144
Review	106	8	(3)	111
JETS & Yarra Trail	4	-	(1)	3
Total Retail Sites	**251**	**16**	**(9)**	**258**

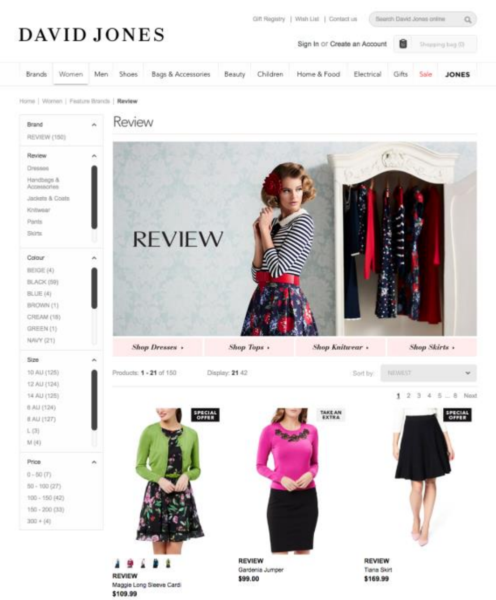
Operational Highlights – Online & Customer Loyalty

- Online sales now represent 12.4% of Group retail sales, up from 8.6% in FY2016
- Access to key retail partners online customer base was achieved via the launch of Myer Dropship and The Iconic for Review with sales exceeding expectations in both channels
- Initiated discussions with both Amazon and Alibaba with a planned launch on their marketplace channels to take place in FY2018
- Launch of new White Runway and Black Pepper websites in H1 incorporating enhanced functionality and improved navigation and checkout
- Launched a new JETS website in February 2017 on the Salesforce Commerce Cloud platform, providing improved customer experience and conversion
- Loyalty membership grew by a further 220,000 members (up 41%) in FY2017 to 754,000 members. Loyalty sales now represent c.76% of sales and the program continues to provide improved consumer insights, enables tailored communication and drives traffic to our retail stores
- Successful launch of Loyalty App for Review with more than 30,000 downloads driving higher conversion and engagement with top spenders
- Launch of new social media channels for Review with Weibo and WeChat as a first step in our entry to the China market

Loyalty and Online Growth FY2014 –FY2017



New JETS Website and David Jones Dropship



Operational Highlights – Online & Customer Loyalty

The PAS Group continues to build a market leading position in apparel digital retail & loyalty

PAS GROUP ONLINE AND LOYALTY ACHIEVEMENTS

	FY2013	FY2014	FY2015	FY2016	FY2017
Online Sales:	$2.0m	$3.2m	$5.0m	$12.4m	$17.5m
Annual Growth:	-	61%	57%	149%	41%
% Total Retail Sls:	0.2%	3.2%	4.3%	8.6%	12.4%
Loyalty Customers:	40,000	108,000	342,000	534,000	720,000
REVIEW	• Updated Loyalty Program commences (online launch 2012)		• April 15 : **Click & Collect launched** • Aug 15: **Store to Door** – Single view of inventory	• May 16: Launch **new Website & Mobile site**	• Aug 16: Launch online (dropship) With **Iconic** • Aug 16: Launch online (dropship) With **Myer** • Jul / Aug 17: Launch online (dropship) with **David Jones**
JETS AUSTRALIA				• Dec 15: JETS Acquisition	• Feb 17: **JETS platform upgrade** to Salesforce Commerce Cloud Inc. US and UK sites
BLACK PEPPER			• Oct 14: **Website Launched**	• Oct 15: **Loyalty program launch**	• Aug 16: Launched **new Website & Mobile site**

Operational Highlights – Wholesale, Design & Distribution

- Wholesale sales were $120.9m, down 9.5% on the same period last year
- Sales were down on the prior year due to order movements from Designworks department store customers offset partially by a full year of JETS (FY2016 seven months)

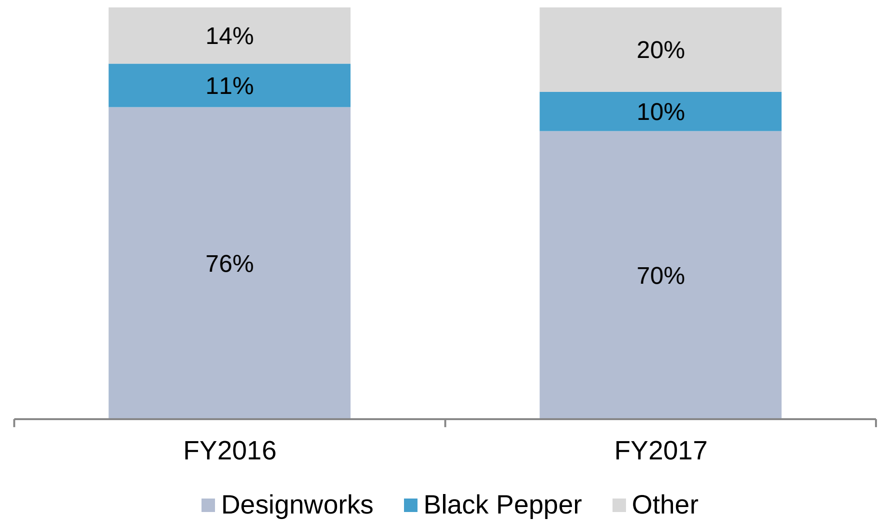
DESIGNWORKS

- Sales down 16.4% to $84.6 million largely due reduced and delayed licensed orders from some key department store customers
- Increased FY2017 sales in the Sport Division driven by growth in new Footwear ranges and Sports Equipment
- Business well positioned for FY2018 incorporating new supply opportunities with major customers and the launch of a new major sports license

OTHER WHOLESALE

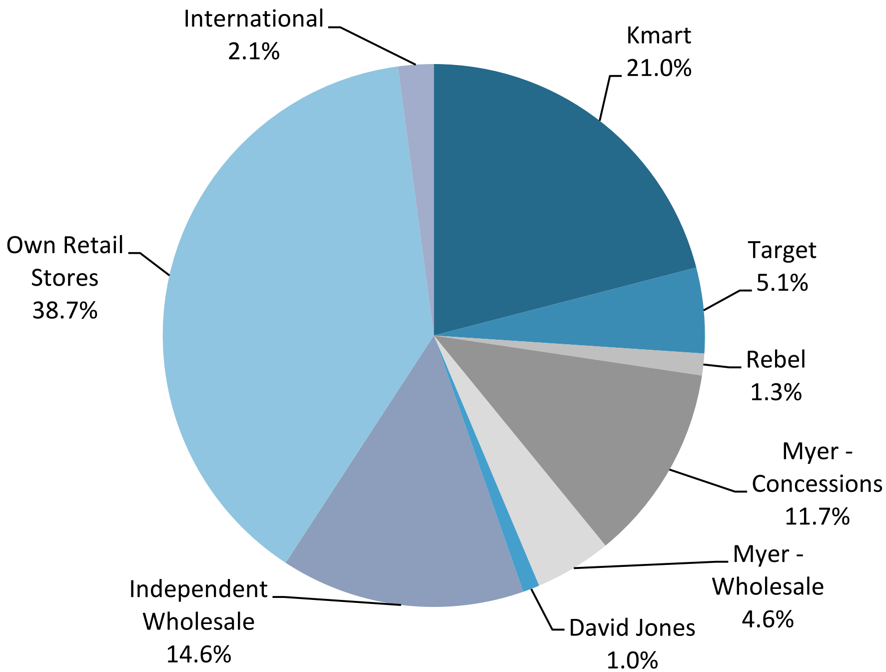
- Growth in JETS driven by strong international wholesale
- Further investment in JETS infrastructure to drive growth
- Growth in Yarra Trail wholesale
- Continued shift from Wholesale to Retail in Black Pepper

Wholesale Sales by Brand – FY2016 v FY2017

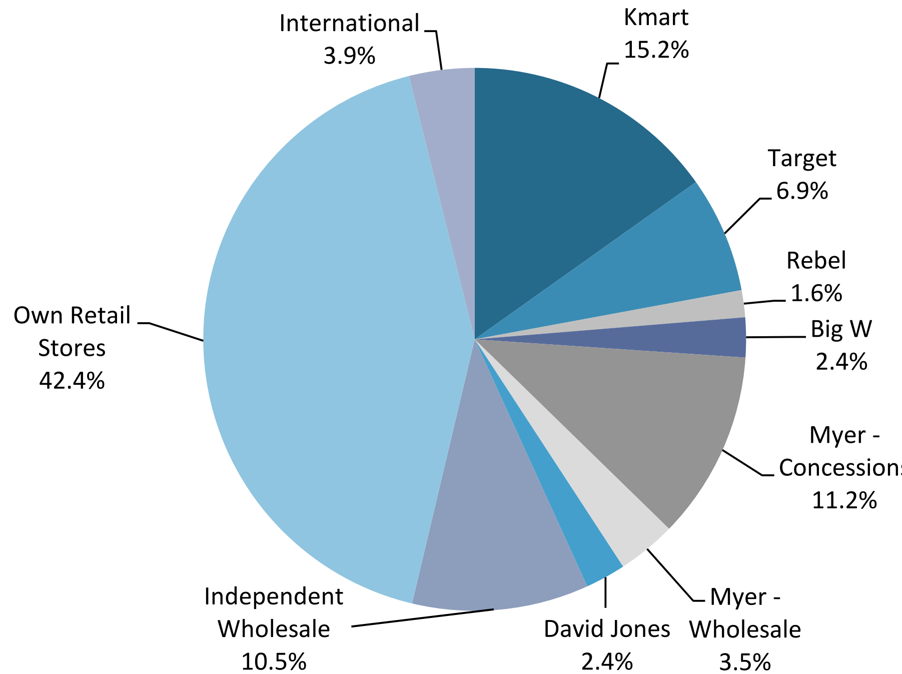


Sales by customer

Sales by Customer /Channel – Full Year FY2016



Sales by Customer /Channel – Full Year FY2017

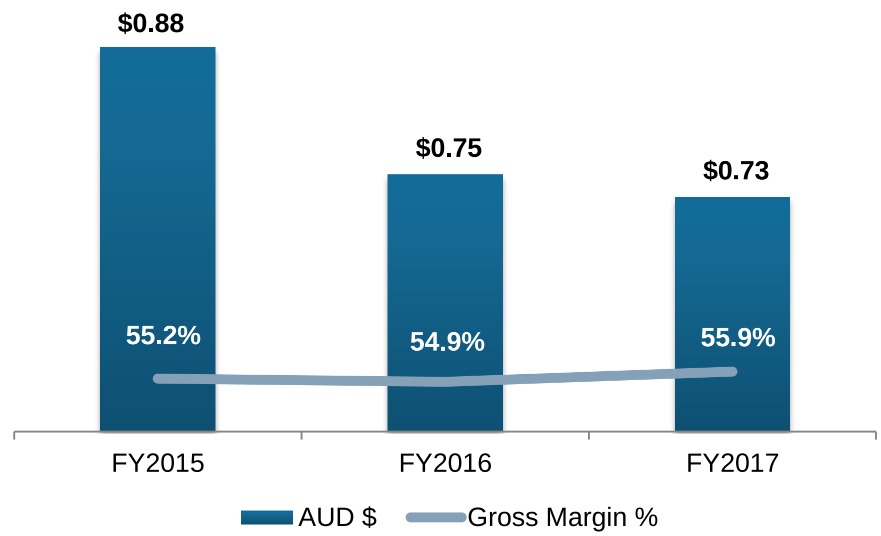


- Investment in own retail and International channels continues to reduce reliance on local Discount Department stores
- Continued growth in Sport and Footwear through Rebel and Independents
- Increase in David Jones due to JETS and the launch of Review concessions
- Kmart reduction due to reduced character licensing partially offset by growth in Target

Gross Margin and Exchange Rates

- Gross margin has continued to be well managed through the currency cycle despite historical depreciation in the AUD
- FY2017 Gross profit % 100bps higher than prior year driven by a higher retail mix
- Forward US dollar currency requirements for retail businesses covered to the end of FY2018 at c.$0.75
- Future currency requirements and wholesale pricing are determined when firm orders are received

Exchange rate and margin



Future Growth Plan

1 New Store Roll Out

- Selected new stores to be opened with the major emphasis on David Jones concessions (opening an additional 8 in addition to the 4 opened in FY2017)
- Implementation of a new future store concept for Review

2 Store Enhancement

- 26 Targeted refurbishments planned in FY2018
- New future store concept planned for Review concession in Myer and David Jones
- New store concept for the JETS Noosa store as well as David Jones

3 Product and Brand Extension

- Planned growth in Designworks sports & footwear division
- Expansion in Everlast product categories through Everlast FIT
- Launch of a major new sport brand
- Launch of BOD Activewear by Racheal Finch in department stores and online

4 Licensing Opportunities

- Continue to leverage alliance with UK based global brand owner IBML – new major sports licence confirmed in FY2017
- Opportunities with strong portfolio of licences and an ongoing pipeline of new licensed opportunities

5 Online Growth

- New website planned for Review on the Salesforce Commerce Cloud Platform leveraging the success of JETS
- Planned launch of additional group brands on the Amazon Marketplace
- Planned Launch of Review and possibly Yarra Trail on the Alibaba Tmall global platform
- Launch of Everlast online

6 Loyalty

- Launch of a new Black Pepper loyalty program
- Continued focus on mobile loyalty and segmented, targeted communications

7 International Growth

- JETS international growth through wholesale and online – US focus for FY2018
- Review China and Asia entry through Alibaba platforms

8 Acquisitions

- Bondi Bather swimwear acquired in August 2017 as a strategic addition to the swimwear division
- Continuing to evaluate a broad range of value enhancing opportunities

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Future Growth Plan – Online and Loyalty

There are a range of new initiatives in progress to drive online and loyalty growth across the Group

- **By the end of FY2018 Review is planned to be represented in 6 distinct online channels** all providing unique customer offers and access to new customers segments
- The launch of Review with Amazon and Alibaba will provide access to new international markets

Other major Group initiatives in progress for FY2018 include:

- The launch of additional Group brands on the Amazon Marketplace
- An Everlast online site delivering direct access for Everlast customers to Boxing and fitness equipment
- An upgrade of the Group's loyalty platform which will be rolled out to Review and Black Pepper
- Investment in growth for JETS online in the US and UK
- Launch of BOD Activewear by Rachel Finch

Review Online and Loyalty Initiative Pipeline FY2018*

		REVIEW	FY2018 Initiatives
OWNED CHANNELS	1	Review Website	• **Upgrade to Salesforce commerce cloud planned for Q3 FY2018** including US and UK sites
	2	Review Loyalty	• Upgrade to loyalty platform in Q1
	3	Review Mobile App	• New features to be launched
AFFLIATE MARKETPLACE CHANNELS	4	Myer Online	• On track to be the largest Concessions Store. Future growth from Concession Store to Door
	5	Iconic Online	• Dropship Integration
	6	**David Jones Online**	• Dropship launched in August 17
	7	**Amazon Marketplace**	• Planned marketplace launch
	8	**Alibaba Group**	• Planned Tmall Global launch & Alipay launch for Review and possibly Yarra Trail

● *- New in FY18*

* *- Representative of a typical rollout plan for other Group brands*

Outlook

- **Trading conditions in the first 8 weeks remain challenging with comp store growth below prior year**
- **Planned moderate like-for-like sales growth from Q2**
- **Continued focus and investment on growing online sales and loyalty programs through own channels and international marketplace opportunities**
- **Selected new stores to be opened in FY2018**
  - Opening 15 new stores, of which 8 will be David Jones Concessions
  - New store concepts to be introduced for Review and JETS
  - Planning to close between 10 – 15 stores at lease expiry in FY2018
- **Continued investment to grow JETS online, retail and international wholesale**
- **Designworks growth from the new Sport Division including new categories in Footwear and Equipment and the launch of a new sports brand**
- **Strong cash generation with no debt** and a new flexible banking deal to cost effectively accommodate growth
- **Continuing to explore potential acquisitions & licensing opportunities**
  - Acquisition in August of Bondi Bather

FY2017 Financials

Sales by Brand and Segment

Actual ($ millions)	FY2017	FY2016	Var
Retail			
Review	74.1	74.6	**-0.6%**
Black Pepper	59.9	55.6	**+7.8%**
New Businesses and Other	6.9	5.7	**+21.6%**
Total Retail Sales	**140.9**	**135.9**	**+3.7%**
Wholesale			
Designworks	84.6	101.2	**-16.4%**
Black Pepper	11.5	14.1	**-18.1%**
New Businesses and Other	24.7	18.2	**+35.7%**
Wholesale Sales	**120.8**	**133.5**	**-9.5%**
Total Sales	**261.7**	**269.4**	**-2.8%**
Retail Sales % of Total Sales	*53.8%*	*50.4%*	
Wholesale Sales % of Total Sales	*46.2%*	*49.6%*	
Retail Sales Growth (%)	*3.7%*	*15.4%*	
Wholesale Sales Growth (%)	*-9.5%*	*25.1%*	

Retail

- Review sales growth driven by online and boutiques with Myer concession performance challenging
- Black Pepper growth driven by new stores
- New business driven by JETS retail and online

Wholesale

- Designworks sales impacted by order movements of some key department store customers
- Black Pepper shift from Wholesale to retail continues in line with plan
- New business growth driven by JETS wholesale growth, particularly in the US

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Income Statement

Continuing Business ($ millions)[i]	FY2017	FY2016	Var
Revenue from Sales	**261.7**	**269.4**	**-2.8%**
Gross Profit	146.3	147.8	
Gross Profit Margin (%)	*55.9%*	*54.9%*	
Cost of Doing Business (CODB)	(127.5)	(123.9)	
CODB (%)	*48.7%*	*46.0%*	
EBITDA	**18.8**	**23.9**	**-21.3%**
Depreciation & Amortisation	(7.7)	(6.8)	
EBIT	**11.1**	**17.1**	**-35.4%**
Net Finance Costs	(0.7)	(0.9)	
PBT	**10.4**	**16.2**	**-35.9%**
Tax Expense	(2.1)	(4.9)	
NPAT – Continuing Business	**8.3**	**11.3**	**-27.1%**
NPAT – Discontinued Business	(0.6)	(0.7)	
NPAT – Reported	**7.7**	**10.6**	**-27.4%**

- Gross profit margin up 100 basis points reflecting increase to retail mix
- CODB increase on prior year of 270 basis points (which includes revenue of $1.7m from the release of deferred and contingent consideration relating to the conclusion of the JETS acquisition) was predominantly due to:
  - Property and employment costs associated with new stores in FY2017 and full year impact of stores rolled out in FY2016
  - Investment in Black Pepper retail infrastructure
  - Full year annualisation and investment in JETS
  - Investment in digital marketing and fulfilment costs for online sales growth
- Depreciation increase largely due to the annualisation of new stores and investment in online
- Net finance costs decrease was largely due to new banking deal entered into in January allowing access to cheaper debt funding of working capital cycle

(i) See Continuing Business to Total Business Income Statement reconciliation at Appendix A

Balance Sheet

Statutory ($ millions)	30 June 2017	30 June 2016
Cash and Cash Equivalents	4.9	7.9
Trade and Other Receivables	20.3	21.2
Inventory	33.1	30.1
Property, Plant and Equipment	15.6	13.7
Deferred Tax Assets	7.4	8.8
Goodwill & Other Intangible Assets	85.5	85.4
Assets Held for Sale	-	3.6
Other Assets	3.9	4.2
Total Assets	**170.7**	**174.9**
Trade and Other Payables	18.5	18.3
Deferred Tax Liabilities	7.5	7.5
Liabilities Held for Sale	-	0.3
Other Liabilities	18.2	23.0
Total Liabilities	**44.2**	**49.1**
Net Assets	**126.5**	**125.8**

- No debt
- Net cash of $4.9 million (as at 30 June 2017)
- Inventory increase due to new stores and investment in JETS stock levels
- PP&E increase due to new stores and refurbishment investment and transition to the new Designworks support office
- Net Assets and Liabilities Held for Sale represents the net value of assets and liabilities relating to the Metalicus discontinued business which completed on 30 September 2016
- Other liabilities decrease was primarily due to a reduction in deferred and contingent consideration payable relating to the JETS acquisition as well as reductions in employee and lease incentive liabilities

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Cash Flow Statement

Statutory ($ millions)	FY2017	FY2016
Net profit after tax [(i)]	7.7	10.6
Adjustments (incl depreciation, interest and tax)	10.6	11.5
Cash profit	18.3	22.1
Movement in Working Capital	(2.9)	(2.2)
Movement in Trade & Other Receivables	*1.1*	*1.6*
Movement in Inventories	*(3.0)*	*(5.2)*
Movement in Trade & Other Payables	*(1.0)*	*1.4*
Movement in prepayments and provisions	(3.1)	0.6
Net cash flow from operations	**12.3**	**20.5**
Receipts/(Payments) for Businesses	3.0	(11.5)
Capital Expenditure	(8.6)	(7.9)
Lease Incentive - Support Offices	0.7	1.7
Net cash flow before financing activities and tax	**7.4**	**2.8**
Income Tax (Paid)/Refund	(2.4)	1.0
Net Interest	(0.8)	(0.9)
Dividends Paid	(7.1)	(7.8)
Net Cash Flow	**(2.9)**	**(4.9)**

- Positive net cash flow generated pre dividends
- Operational cash flows impacted reduced EBITDA and investment in inventory
- Capital Expenditure reflects the continual store roll out program, targeted investment in refurbishments, ongoing development of our online and loyalty infrastructure and build of the the new Designworks office
- The movement in prepayments and provisions incorporates the release of deferred and contingent payments relating to JETS
- Receipts/(Payments) for Businesses reflect the net cash inflow upon disposal of Metalicus in H1 FY2017 and outflows for the initial payments for White Runway and JETS in H1 FY2016
- Dividends paid reflect the payment of the Final Dividend for FY2016 & FY2015

(i) NPAT includes aggregate impact of Metalicus discontinued business. Refer to Appendix A

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Earnings by Segment

Actual Underlying ($ millions)	FY2017	FY2016
EBITDA		
Retail	18.4	20.7
Margin (%)	*13.1%*	*15.2%*
Wholesale	10.1	11.9
Margin (%)	*8.3%*	*8.9%*
Unallocated / Corporate	(9.7)	(8.7)
Total EBITDA	**18.8**	**23.9**
Margin (%)	*7.2%*	*8.9%*
EBIT		
Retail	13.1	16.3
Margin (%)	*9.3%*	*12.0%*
Wholesale	9.5	11.3
Margin (%)	*7.9%*	*8.5%*
Unallocated / Corporate	(11.5)	(10.5)
Total EBIT	**11.1**	**17.1**
Margin (%)	*4.2%*	*6.4%*

- Retail EBITDA decreased compared to prior year due to challenging retail conditions including like for like retail sales below prior year and under performance of retail concession stores
- Included in the result were the positive impacts of the strong online sales growth of 40.8%, 16 new store openings and the net annualisation of 32 stores opened in FY2016
- Wholesale EBITDA was below prior year predominantly due to delayed department store and discount department store orders, partially offset by a 130 bps increase in gross margin
- Unallocated and Corporate underlying EBITDA has been well managed and increased year on year due to centralisation of $1.7m in Digital Marketing costs

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Appendices

Appendix A: Continuing to Total Business Reconciliation

On 27 July 2016 The PAS Group Ltd ('PAS') announced that it had signed an agreement for the sale of its loss making Metalicus business to the General Pants Group. This transaction was successfully completed on 30 September 2016.

On this basis, the Metalicus business met the criteria to be classified as a discontinued operation for the year ended 30 June 2017. Accordingly, the results of the discontinued operation are presented separately in the consolidated statement of profit and loss and other comprehensive income and the assets and liabilities incorporated in the sale have been presented separately in the statement of financial position as assets held for sale for the comparative period 30 June 2016 in accordance with Accounting Standards.

All prior year comparatives throughout the financial statements and notes are representative of the continuing business only and Note 5 provides further information regarding the disposed business.

Whilst PAS believes that presenting continuing business profit provides a better understanding of its financial performance, for transparency, a reconciliation between the continuing business and the Total Business incorporating the Metalicus Discontinued Operation is provided below.

($'millions)	FY2017 Revenue	FY2017 EBITDA	FY2017 EBIT	FY2017 NPAT	FY2016 Revenue	FY2016 EBITDA	FY2016 EBIT	FY2016 NPAT
Continuing Business	**261.7**	**18.8**	**11.1**	**8.3**	**269.4**	**23.9**	**17.1**	**11.3**
Financial Impact: Metalicus Discontinued Operation[(i)]	5.3	(0.8)	(0.8)	(0.6)	25.4	(1.8)	(2.2)	(0.8)
Total Business	**267.0**	**18.0**	**10.3**	**7.7**	**294.8**	**22.1**	**14.9**	**10.6**

(i) The FY2017 financial information presented reflects the operations for the three month ownership period ended 30 September 2016 whilst the FY2016 comparative period reflects a full twelve months trading.

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