

22 August 2018

# The PAS Group Limited – FY2018 Results Briefing

ABN 25 169 477 463



# FY2018 Results Summary

## Financial and Operational Summary <sup>(i)</sup>

- Total sales of \$256.4 million
  - Retail sales down 1.3%
  - Wholesale sales down 2.8%
- Trading conditions in the broader retail environment continued to be challenging and were compounded by the late onset of Winter and the ensuing heavy promotional environment. Sales performance from the company owned stores were significantly stronger than Concession sales which continued to under perform.
- The consolidation of the store network by closing less profitable stores impacted sales, key sales drivers continued to be online, selected new stores, and the annualisation of stores opened in FY2017.
- Online sales grew 17.2% on top of the 41.0% growth achieved in FY2017 – driven by an expanded presence on both company owned and third party platforms.
- Continued strong growth in loyalty programs with total membership up 189,000 (25%) to 943,000 and now representing 76% of total Retail sales.
- Wholesale sales declined by \$3.5 million which included the discontinuation of \$5.1m of low margin wholesale sales in Designworks and the delay of deliveries by major customers.
- Gross profit of 56% was well managed and in line with FY2017.

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

- EBITDA from continuing business of \$11.2 million is within previously reported range of \$10.0 – \$13.0 million inclusive of \$1.6m investment in new business, digital and international expansion costs. The net impact of non-trading, non-recurring items was immaterial.
- Non-cash impairment charges of \$5.5 million were recognised against White Runway (\$4.6 million) and discontinued character licences (\$0.9 million).
- Statutory NPAT of -\$2.9 million (FY2017 \$7.7 million) this was inclusive of impairment charges.
- The Group remains long term debt free.
- Total dividend of 1.5 cps with no final dividend declared.



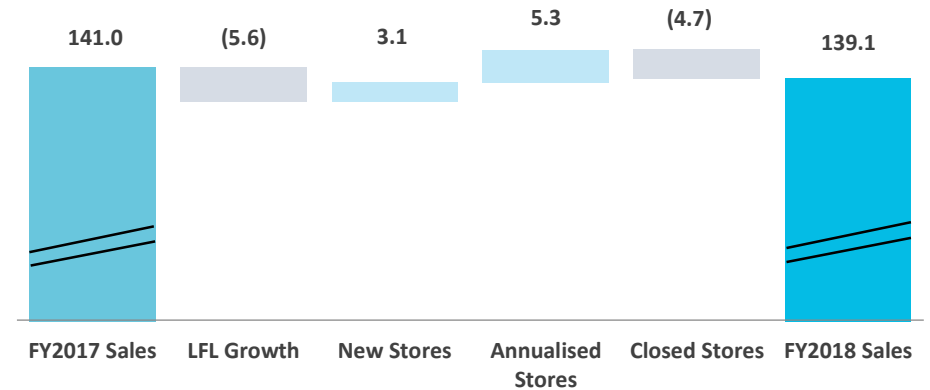
	FY2018	FY2017
<b>Sales</b>	\$256.4 million	\$261.7 million
<b>EBITDA</b>	\$11.2 million	\$18.8 million
<b>NPAT – Continuing</b>	-\$2.9 million	\$8.3 million
<b>NPAT – Total Business</b>	-\$2.9 million	\$7.7 million

# Retail Segment

## Summary

- Retail sales reduced by 1.3% to \$139.1m
- Movement was due to:
  - Negative LFL sales particularly in Myer concessions;
  - Online sales growth of 17.2% in addition to the 41% growth achieved in FY2017;
  - Consolidating the store portfolio with 14 new stores opened during the financial year, including 9 Review concessions in David Jones, offset by the closure of 16 stores;
  - The annualised impact of new stores and closed stores in FY2017

## FY2017 to FY2018 Retail Sales Bridge (\$ million)



## Retail Sites

- 14 new Retail sites opened in FY2018:
  - Black Pepper; 2 stores
  - Review; 1 store, 9 concessions
  - JETS; 1 store
  - Bondi Bather; 1 store (acquired)
- New store concepts were opened for Review in Melbourne Central, Woden and Booragoon with 2 of the 3 trading ahead of expectations.

## Total Retail Sites by Brand

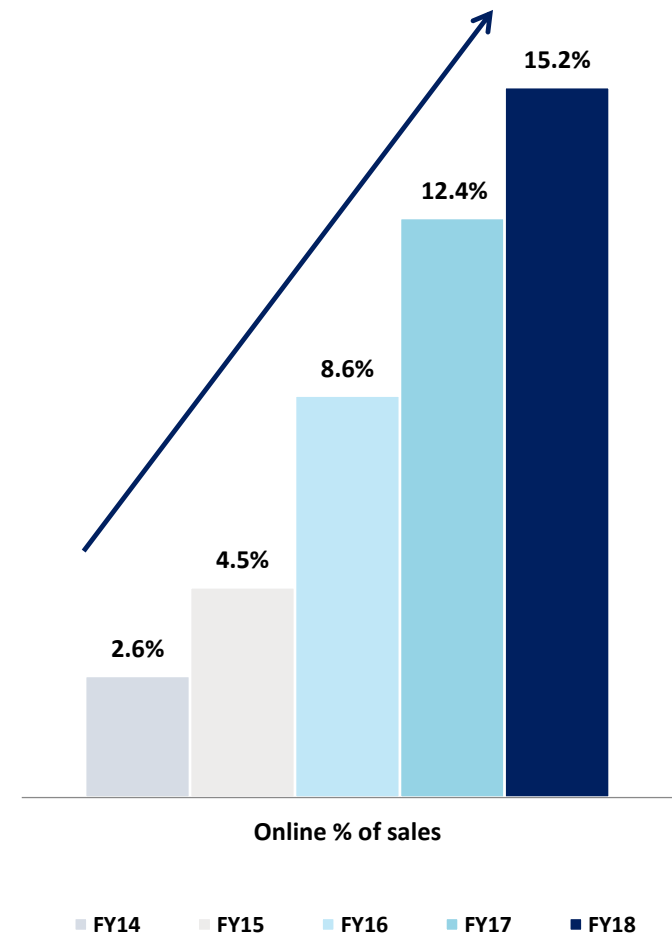
	FY2017	Opened	Closed	FY2018
Black Pepper	144	2	(10)	136
Review	111	10	(5)	116
New Businesses & Other	3	2	(1)	4
<b>Total Retail Sites</b>	<b>258</b>	<b>14</b>	<b>(16)</b>	<b>256</b>

# OPERATIONAL HIGHLIGHTS | ONLINE & CUSTOMER LOYALTY

- Online sales now represent **15.2%** of Retail sales across the Group, up from 12.4% in FY2018
- Total Online sales growth of **17.2%** was achieved in addition to the 41% growth achieved in FY2017
- A new market leading online platform was launched for Review
- Launched Review on the **Alibaba Tmall platform** in January 2018. Review are the first Australian apparel business to launch on Tmall Global and with over **460 million active users**, this has opened up a significant opportunity in an exciting market.
- Launched selected brands on **Amazon**.
- **Myer online** dropship continued to perform well
- Access to key retailers online customer base continued to be achieved with the launch of **David Jones** Dropship for Review and **The Iconic** Marketplace for JETS
- Launch of **B.O.D by Rachael Finch** website in November 2017
- Launch of **Everlast Australia** website in December 2017, providing a direct to customer opportunity for the business
- The launch of **“Floor to Door”** was the final pillar in becoming a true omni channel retailer

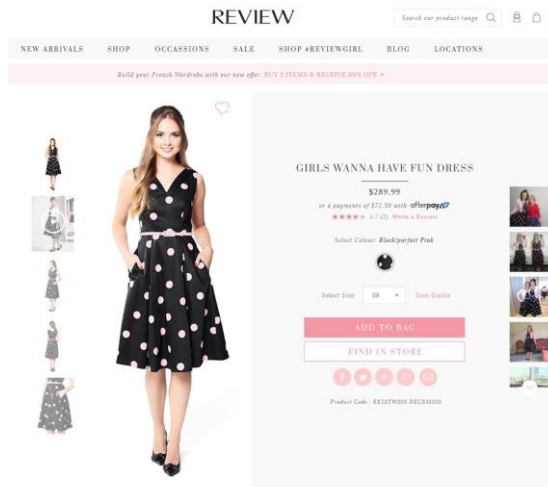
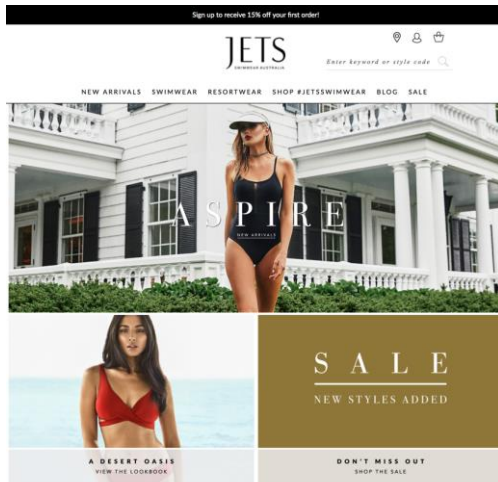


## Online Growth (FY2014 – FY2018)

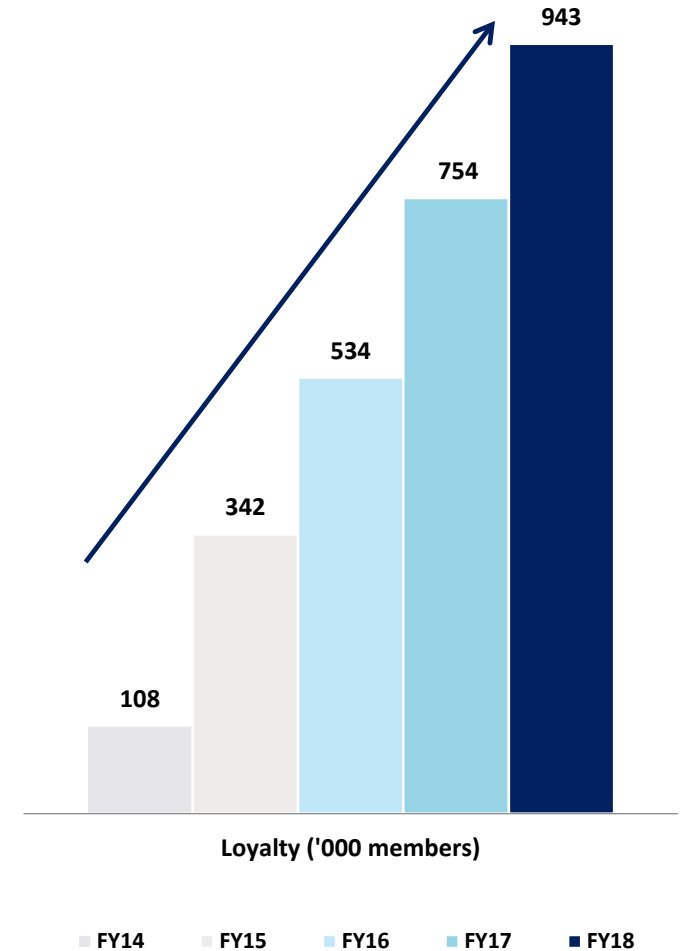


# OPERATIONAL HIGHLIGHTS | ONLINE & CUSTOMER LOYALTY

- Loyalty membership grew by a further **189,000** members **(+25%)** in H2 FY2018 to **943,000** members.
- Loyalty sales now represent **c.76%** of total retail sales. A new technology was implemented which provides detailed customer analytics enabling **tailored communication** to our customer base as well as a deeper dive into **customer insights**
- Introduced an invitation only VIP status the **'Dress Circle'** to the Review Loyalty Program to acknowledge our most loyal members by elevating them to a new status and creating a personalised, **rewarding brand experience**.
- Upcoming launch of the updated iOS and new Android **Review Loyalty App** H1 FY2019, enhancing the customer experience and expected to increase the active users, engagement and conversions.



## Loyalty Growth (FY2014 – FY2018)



# OPERATIONAL HIGHLIGHTS | ONLINE & CUSTOMER LOYALTY

## PAS Group Online and Loyalty Achievements

FY2018

Online Sales:	\$21m
Annual Growth:	c.17.2%
% Total Retail Sls:	c.15.2%
Loyalty Customers:	c. 943,000

### REVIEW



Review platform upgrade to Salesforce Commerce Cloud Inc. US and UK sites



Loyalty platform upgrade



Amazon Marketplace



Tmall Global launch & Alipay

### JETS AUSTRALIA



Investment in growth for JETS online in the US and UK



VIP.COM launch

### B.O.D BY FINCH



Launch of BOD Activewear by Rachel Finch



Amazon Marketplace

### BONDI BATHER AUSTRALIA



Amazon Marketplace

### EVERLAST



Online site delivering direct access for Everlast customers to Boxing and fitness equipment



Amazon Marketplace

### Implementation of "Floor to Door"

PAS has executed the final phase of being a true omnichannel retailer via the introduction Floor-to-Door enabling retail fulfillment to occur from any place at any time across the bricks and mortar and online network.

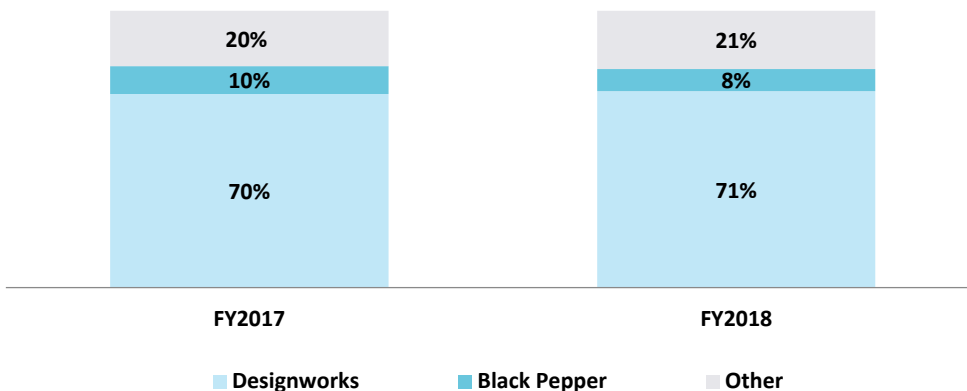
# Wholesale, Design & Distribution

Wholesale sales were \$117.3m, down 2.8% on the same period last year

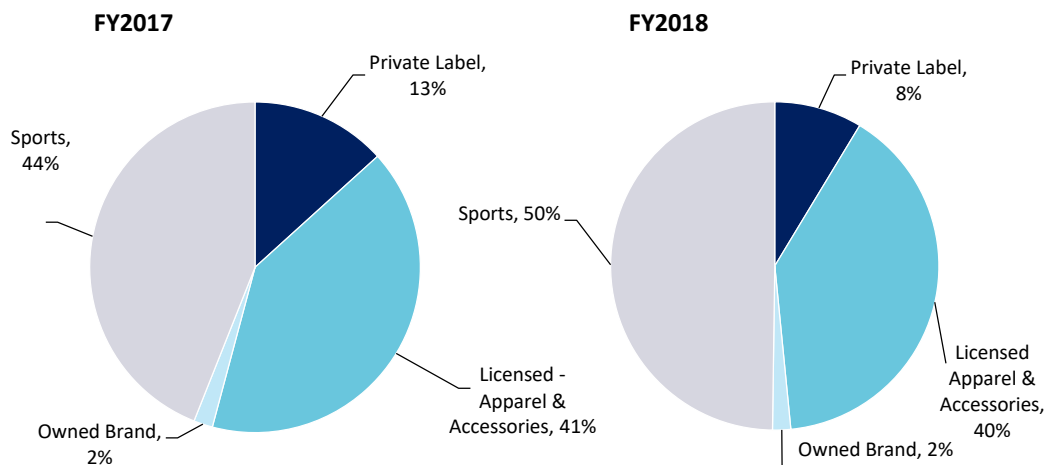
## DESIGNWORKS

- Sales down 1.1% to \$83.5 million due to delays in deliveries by major customers and the discontinuation of \$5.1m of low margin sales, however this impact was offset by strong margin improvement driven by continued growth in the Sport Division and effective FX management
- Whilst Designworks experienced continued growth across both the Apparel and Sports divisions, significant investment took place to support the \$35 - \$40 million of new business. The new business initiatives are as follows:
  - The Coles Mix program
  - A full year of our new Lonsdale brand which was launched in the second half of FY2018
  - The launch of our own Suburban brand in Target
  - The launch of Russell Athletic in H2 FY2019
  - The expansion of Athletic Footwear as well as the launch of Women's fashion footwear
- 90% of sales now from Licensed business and Sport, continuing to de-risk and reduce reliance on Private Label
- Continued strong growth in the Designworks Sports equipment and Footwear Division incorporated the successful launch of women's footwear in Designworks which complements its existing apparel and accessories business

## Wholesale Sales by Brand – FY2017 v FY2018



## Designworks Product Mix – FY2017 v FY2018

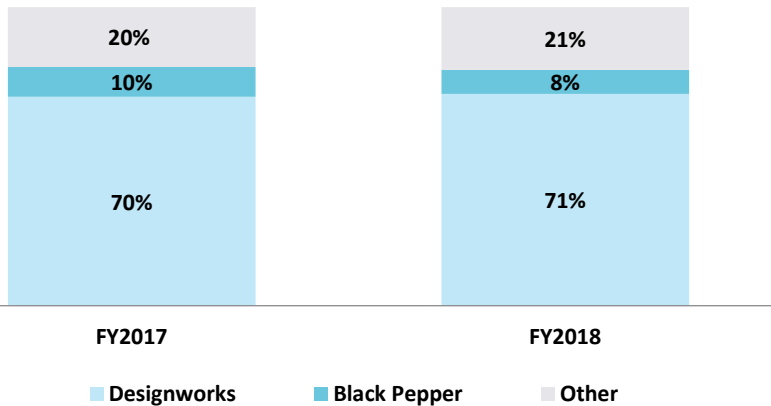


## Wholesale, Design & Distribution *(continued)*

### Other Wholesale

- The Group has invested in infrastructure to support the Swimwear division's expansion in international wholesale and online with a particular focus on the US, European Union and the UK.
- To support the international growth we will be operating through a 3rd party distribution centre in Hong Kong which is due to go live in October.
- Continued strong performance in Yarra Trail Wholesale; and
- Continued shift from Wholesale to Retail in Black Pepper in line with strategic shift to exit Independent Wholesale

### Wholesale Sales by Brand – FY2017 v FY2018

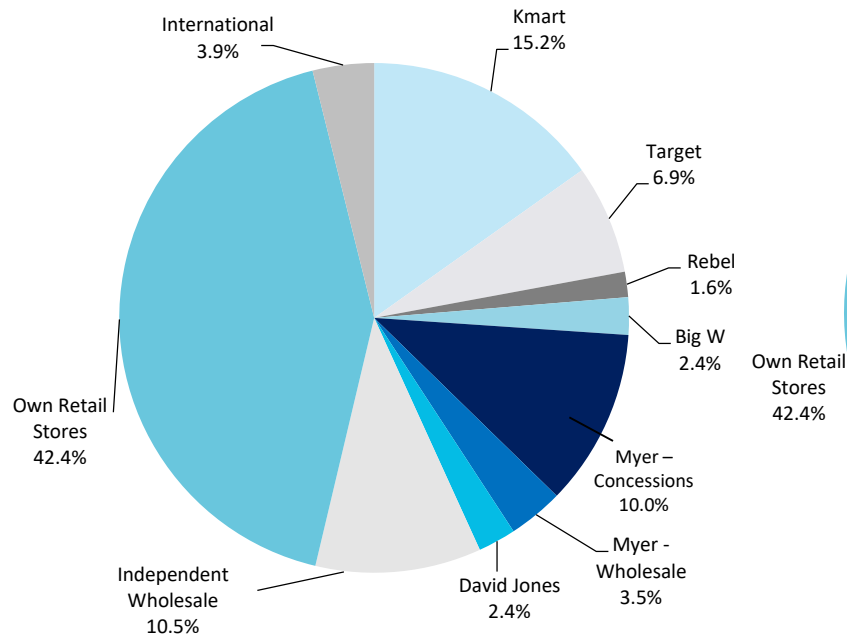




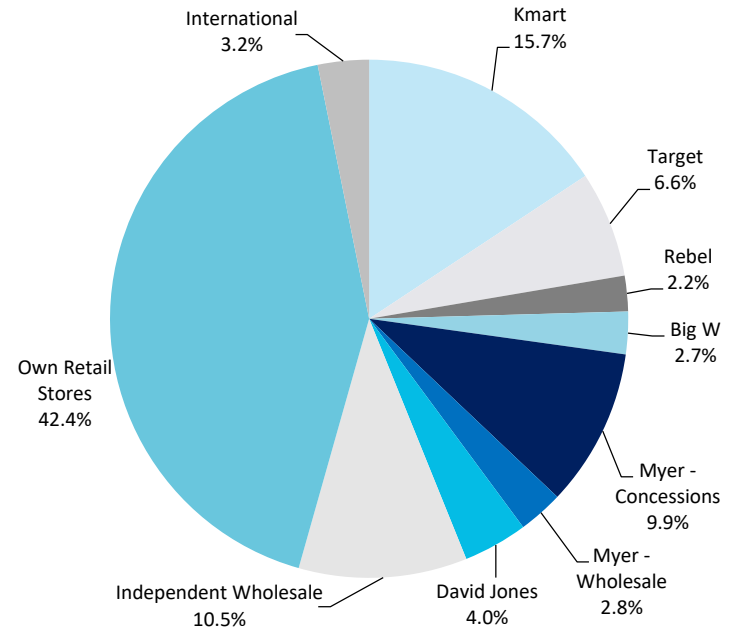
# Sales by Customer



Sales by Customer / Channel – FY2017



Sales by Customer / Channel – FY2018



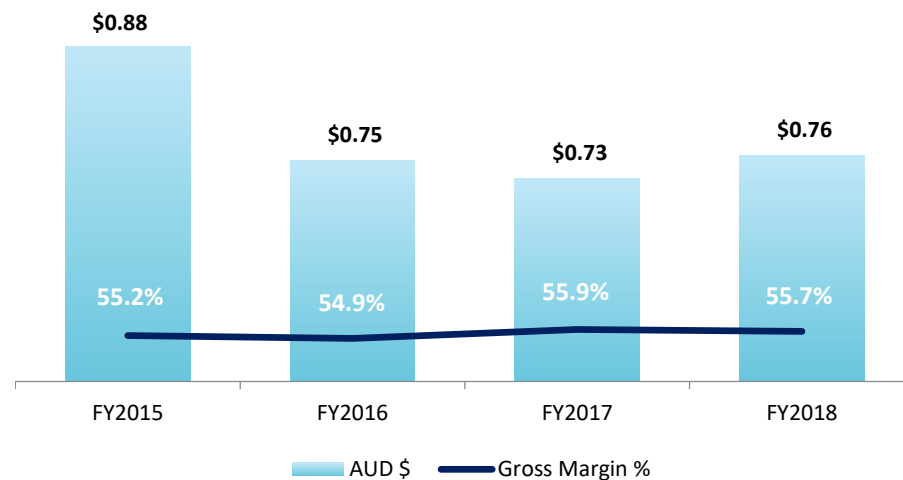
- Investment in own Retail and International channels contributes to low reliance on Private Label sales in local Discount Department stores
- Continued growth in Sport through Kmart, Rebel and Independents
- Increase in David Jones due to 9 new Review concession stores opened during FY18
- Planned future reductions in Independent Wholesale to continue as part of the strategic exit from this market in Black Pepper

## Gross Margin and Exchange Rates



- Gross margin has continued to be well managed through foreign currency cycles.
- Despite current retail market conditions and heightened levels of industry wide promotional activity, FY2018 Gross profit remained consistent with the prior year.
- Forward US dollar currency requirements for retail businesses covered beyond H1 FY2019.

### Exchange Rate and Margin



# Growth Plan

01.

## Product and Brand Extension

- Continued growth in Designworks Sports & Footwear divisions
- Sales from direct to consumer websites Everlast and B.O.D by Rachael Finch
- Introduction of Review Kids in David Jones and online
- Realisation of new contract wins including Coles Supermarket Mix program, Lonsdale and Russell Athletic
- The launch of Suburban as a major brand with Target

02.

## Online Growth

- Online continues to be a major growth vehicle for the business both in existing markets and new channels including 3<sup>rd</sup> party apps
- The enhanced focus on single customer view across omnichannel to be driven by newly implemented customer data analytics tool
- Launch of Review, B.O.D by Rachel Finch and Bondi Bather on Amazon Marketplace
- Launch of Review on the Alibaba Tmall global platform
- Launch of JETS on VIP.com
- Multi-branded launch on Qantas online mall as part of new partnership

03.

## International Growth

- JETS international growth through Wholesale and online – with a particular focus on the US, UK and Europe
- The introduction of a new range of JETS Resortwear has been well received and will complement the current swimwear offering both locally and overseas
- Review China and Asia entry through Alibaba platforms

04.

## Loyalty

- Launch of new Review and Black Pepper loyalty programs including Review 'Dress Circle'
- Continued focus on mobile loyalty and segmented, targeted communications utilising data analytics
- Upcoming launch of the updated iOS and new Android Review Loyalty App H1 FY2019, enhancing the customer experience and expected to increase the active users, engagement and conversions

05.

## Licensing Opportunities

- Opportunities with strong portfolio of licences and an ongoing pipeline of new licensed opportunities
- First full year of sales for Lonsdale; and sales from Russell Athletic apparel and footwear commencing January 2019
- Details of a new sporting partnership to be announced in the coming months

06.

## Acquisitions

- Bondi Bather acquired in August 2017 as a strategic addition to the Swimwear division. The brand has now been successfully integrated and is utilising the JETS infrastructure both locally and internationally, providing complementary access to a younger customer segment within swimwear markets
- Continuing to evaluate a broad range of value enhancing opportunities

07.

## Store Enhancement

- Capitalisation on new Floor-to-Door capability in stores to ensure availability and fulfillment for all sizes and styles across brands
- Continued enhancement of customer experience via a total of 9 refurbishments planned for completion in FY2019
- New store concept for the upcoming JETS Port Douglas store as well as selected David Jones locations

# Conclusion and Outlook

- **In spite of challenging trading conditions in FY2018 performance was driven by:**
  - Strong online growth of 17.2%;
  - New stores and annualisation of stores opened in FY18 which included expansion into 9 David Jones concessions;
  - Continuation of the strong growth in the Designworks Sport division; and
  - Underlying investment of \$1.6m in infrastructure to support recent contract wins and upfront costs as well as supporting the international expansion of both the Swimwear division, Review and the growth of Digital
- **Growth strategy execution according to plan:**
  - Digital and loyalty strategy driving omnichannel sales;
  - Encouraging growth signs for JETS international wholesale following targeted investment in infrastructure;
  - Integration of Bondi Bather into the JETS infrastructure complete and providing complementary access to a younger customer segment within swimwear markets;
  - Designworks is well equipped to capitalise on the \$35 – 40 million in new business wins following targeted investment ahead of the curve in FY2018; and
  - Discontinuation of wholesale sales to Independents in Black Pepper will reduce the fixed cost base and allow capitalisation on fresh retail opportunities
- **Strong cash generation with no long term debt** and a flexible banking deal to cost effectively accommodate growth
- **Continuing to explore potential strategic opportunities** whilst maintaining a tight **cost control focus**
- Following a **year of consolidation and investment** the Group is well placed to continue to deliver against our long term strategic imperatives with sales for the first 7 weeks of the year in line with plan





## FY2018 Financials



## Sales by Brand and Segment

Actual (\$ millions)	FY2018	FY2017	Var
<b>RETAIL</b>			
Review	72.5	74.1	(2.3%)
Black Pepper	58.0	59.9	(3.1%)
New Businesses and Other	8.6	6.9	24.6%
<b>Total Retail Sales</b>	<b>139.1</b>	<b>140.9</b>	<b>(1.3%)</b>
<b>WHOLESALE</b>			
Designworks	83.5	84.6	(1.3%)
Black Pepper	9.6	11.5	(16.9%)
New Businesses and Other	24.2	24.7	2.0%
<b>Wholesale Sales</b>	<b>117.3</b>	<b>120.8</b>	<b>(2.8%)</b>
<b>Total Sales</b>	<b>256.4</b>	<b>261.7</b>	<b>(4.0%)</b>
<i>Retail Sales % of Total Sales</i>	54.3%	53.8%	
<i>Wholesale Sales % of Total Sales</i>	45.7%	46.2%	
<i>Retail Sales Growth (%)</i>	(1.3%)	3.7%	
<i>Wholesale Sales Growth (%)</i>	(2.8%)	(9.5%)	

- Review sales impacted by challenging market conditions, offset by growth driven by a strong online result and David Jones concession stores opening during the period
- Black Pepper also challenged with aggressive discounting by competitors in the current environment. Gross profit % continues to be strong and reflects the planned shift from Wholesale to Retail
- New business driven by JETS Retail including online and White Runway
- Continued growth in Designworks Sports sales was offset by delays in licensed Wholesale orders from the major Department Stores
- Designworks sales reflect the discontinuation of \$5.1m of low margin sales and the delay in deliveries from major customers



# Income Statement

Continuing Business (\$ millions) <sup>(i)</sup>	FY2018	FY2017	Var
<b>Revenue from Sales</b>	<b>256.4</b>	<b>261.7</b>	<b>(2.0%)</b>
Gross Profit	142.8	146.3	
<i>Gross Profit Margin (%)</i>	<i>55.7%</i>	<i>55.9%</i>	
Cost of Doing Business (CODB)	(131.6)	(127.5)	
<i>CODB (%)</i>	<i>51.3%</i>	<i>48.7%</i>	
<b>EBITDA</b>	<b>11.2</b>	<b>18.8</b>	<b>(40.6%)</b>
Depreciation & Amortisation	(7.5)	(7.7)	
Impairment	(5.5)	-	
<b>EBIT</b>	<b>(1.8)</b>	<b>11.1</b>	
Net Finance Costs	(0.6)	(0.7)	
<b>PBT</b>	<b>(2.4)</b>	<b>10.4</b>	
Tax Expense	(0.5)	(2.1)	
<b>NPAT – Continuing Business</b>	<b>(2.9)</b>	<b>8.3</b>	
NPAT – Discontinued Business	-	(0.6)	
<b>NPAT – Reported</b>	<b>(2.9)</b>	<b>7.7</b>	

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

- Gross profit margin consistent with prior year reflecting strong gross margin management and effective monitoring of FX outcomes
- CODB increase on prior year is predominantly due to:
  - Continued investment in Digital and IT systems, digital marketing and infrastructure to drive sales growth
  - \$1.6 million of investment in new business, digital and international expansion costs ahead of the curve to support new growth initiatives
  - Property and employment costs associated with new stores in FY2018 and full year impact of stores rolled out in FY2017





# Balance Sheet

Statutory (\$ millions)	30 June 2018	30 June 2017
Cash and Cash Equivalents	-	4.9
Trade and Other Receivables	19.3	20.3
Inventory	36.0	33.1
Property, Plant and Equipment	12.7	15.6
Deferred Tax Assets	6.4	7.4
Goodwill & Other Intangible Assets	84.0	85.5
Other Assets	7.0	3.9
<b>Total Assets</b>	<b>165.4</b>	<b>170.7</b>
Overdraft	0.7	-
Trade and Other Payables	20.0	18.5
Deferred Tax Liabilities	7.9	7.5
Other Liabilities	14.5	18.1
<b>Total Liabilities</b>	<b>43.1</b>	<b>44.1</b>
<b>Net Assets</b>	<b>122.3</b>	<b>126.6</b>

- No long term debt.
- Prudent working capital management. Trade Debtors decreased whilst an increase in Inventory and Trade and Other Payables was due to and timing of orders.
- PP&E decrease was consistent with the maturity profile of stores and tempered rate of new store roll-outs.
- Goodwill and other intangibles decreased due to the non-cash impairment of White Runway goodwill, partially offset by goodwill recorded upon acquisition of the Bondi Bather business and continued investment in software and web development to support online growth.



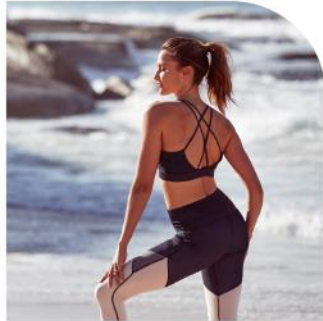
# Cash Flow Statement

Statutory (\$ millions)	FY2018	FY2017
Net profit after tax <i>(i)</i>	(2.9)	7.7
Non-cash Adjustments	12.5	10.6
Cash profit	9.6	18.3
Movement in Working Capital	(0.5)	(2.9)
<i>Movement in Trade &amp; Other Receivables</i>	1.4	1.1
<i>Movement in Inventories</i>	(2.9)	(3.0)
<i>Movement in Trade &amp; Other Payables</i>	1.0	(1.0)
Movement in provisions and prepayments	(2.7)	(3.1)
<b>Net cash flow from operations</b>	<b>6.4</b>	<b>12.3</b>
Receipts/(Payments) for Businesses	(0.1)	3.0
Capital Expenditure	(6.0)	(7.9)
<b>Net cash flow before financing activities and tax</b>	<b>0.3</b>	<b>7.4</b>
Income Tax Payments	(1.3)	(2.4)
Net Interest	(0.6)	(0.8)
Dividends Paid	(4.1)	(7.1)
<b>Net Cash Flow</b>	<b>(5.7)</b>	<b>(2.9)</b>

- Net cash flow from operations predominately reflects the reduction in NPAT, increases to non-cash adjustments and a flat impact from changes to working capital.
- Capital Expenditure in FY2018 reflects targeted store openings, including the store roll out program of David Jones concession stores, targeted investment in refurbishments and ongoing development of our online and loyalty infrastructure.
- Receipts / (Payments) for Businesses represents the net cash inflow upon disposal of Metalicus in FY2017 and outflows for the acquisition of the Bondi Bather business in FY2018.



(i) NPAT in H1 FY2017 includes aggregate impact of Metalicus discontinued business. Refer to Appendix A



## 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 full 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 for the comparative period 30 June 2017 in accordance with Accounting Standards.

All prior year comparatives throughout the financial statements and notes are representative of the continuing business only.

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 3 month ownership period and the ultimate sale of the Metalicus Discontinued Operation is provided below.



(\$'millions)	FY2018 Revenue	FY2018 EBITDA	FY2018 EBIT	FY2018 NPAT	FY2017 Revenue	FY2017 EBITDA	FY2017 EBIT	FY2017 NPAT
Continuing Business	256.4	11.2	(1.8)	(2.9)	261.7	18.8	11.1	8.3
Financial Impact: Metalicus Discontinued Operation <sup>(i)</sup>	-	-	-	-	5.3	(0.8)	(0.8)	(0.6)
<b>Total Business</b>	<b>256.4</b>	<b>11.2</b>	<b>(1.8)</b>	<b>(2.9)</b>	<b>267.0</b>	<b>18.0</b>	<b>10.3</b>	<b>7.7</b>

(i) The FY2017 financial information presented reflects the operations for the three month ownership period ended 30 September 2016.

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