Designworks

BLACK PEPPER
BRANDS

WHITE RUNWAY

JETS

REVIEW

yarra trail

25 February 2019

The PAS Group Limited – H1 FY2019 Results Briefing

ABN 25 169 477 463

THE PAS GROUP LIMITED

H1 FY2019 Results Summary

Financial Summary

- Sales up **9.9%** to **$143.0 million**
  - Online sales up **11.0%**
  - Wholesale sales up **32.1%**
  - Retail sales down **8.0%**
- Online sales grew **11.0%** on top of the **25.5%** growth achieved in H1 FY2018.
- Successful delivery of **c.$20m** of new contract wins in Designworks announced during FY2018 drove a strong and sustainable wholesale sales result.
- A decline in like-for-like Retail sales due to the continuation of challenging trading conditions in the current retail environment. This impact was felt most notably by reduced concession sales experienced in Department Stores.
- Gross profit margin of **50.3%** was reflective of the significant increase in the Group's wholesale v retail customer mix.
- CODB decrease of **4.0%** of sales due to tight cost control, economies of scale achieved through Designworks expansion and strategic portfolio rationalisation.
- Underlying EBITDA[1] of **$6.7 million**, down **28.4%** on H1 FY2018.

1 Underlying EBITDA is a non-IFRS unaudited measure defined for the purpose of this document as earnings before interest, tax, depreciation, amortisation, non-recurring income/expenditure and certain non-cash items such as share based payment expenses recognised in accordance with AASB 2 *Share-based payment*.



	H1 FY2019	H1 FY2018
Total Revenue	$143.7 million	$130.3 million
Underlying EBITDA	$6.7 million	$9.3 million
Statutory EBITDA	$5.7 million	$8.4 million
NPAT	$1.3 million	$3.0 million

H1 FY2019 Results Summary

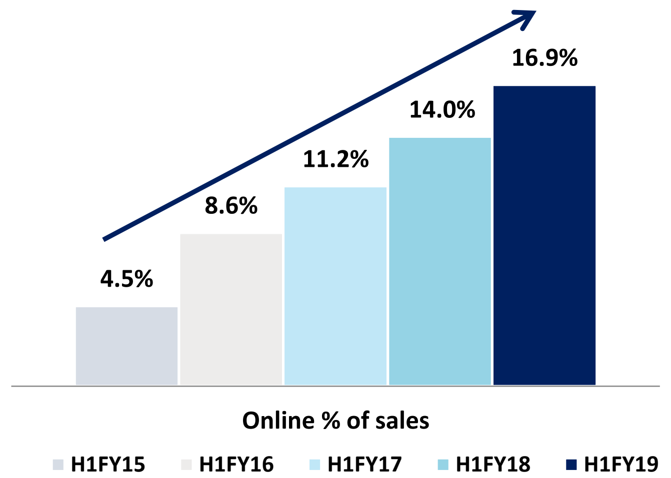
Operational Summary

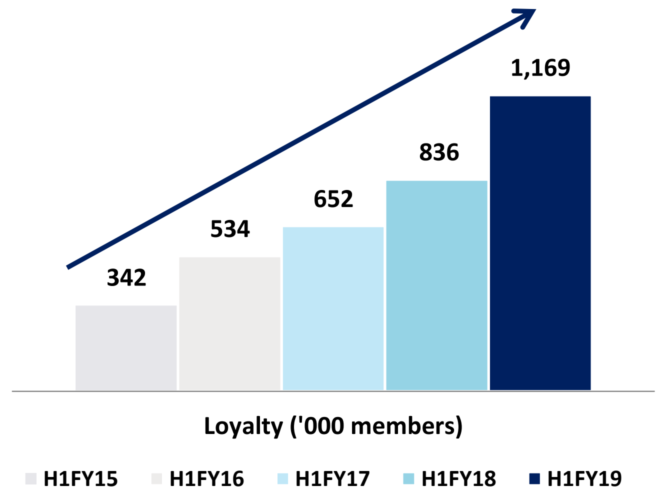
- Continued strong growth in loyalty programs with total membership up YoY **333,000 (40%)** to **1,169,000** and now representing **78%** of total Retail sales.
- The Group continued its strategic retail portfolio rationalisation which culminated in the closure of **25** marginal or unprofitable retail stores since 31 December 2017.
- Whilst we have tempered our new store roll-out program in line with our strategy, we have continued to open new stores in targeted locations, with **3 new stores** opening during the period in targeted and strategic locations.
- Whilst the success of the Designworks wholesale business in growing sales by **51%** resulted in an increased working capital draw, the Groups total working capital as a % sales decreased by 40 bps reflecting strong inventory management.
- Implementation of international swimwear infrastructure including dedicated sales team based in the US.

Operational Highlights - Online & Customer Loyalty

- Online sales continued to trend upwards now representing **16.9%** of the Group's total retail sales in H1 FY2019, up from **14.0%** in H1 FY2018.
- Total online sales growth of **11.0%** was achieved in addition to the **25.5%** in H1 FY2018.
- Online revenue from email campaigns has increased by **45%** through use of our new Customer Data Platform.
- Targeted social advertising achieved an **11x** ROI across all campaigns.
- Since launching the new Review Loyalty App in September 2018 (including the first time launch on Android), active user numbers have increased by **33%** and ATV has increased by **3%** driving a **75%** increase in revenue compared to H1 FY2018.
- Our VIP Dress Circle membership for our most loyal members has grown by **26%**, with an average monthly active rate of **78%** contributing **4.7%** of total loyalty sales.
- The strong take-up of Myer/DJ Dropship channels continued.
- A new Black Pepper Loyalty program was launched in December 2018 assisting to drive total Loyalty membership up to **1,169,000** members – an increase of **24%** since June 2018 and **40%** since December 2017.
- The Review, Black Pepper and Yarra Trail brands have successfully been migrated onto a new email platform resulting in annual cost reductions and simpler integration with existing systems whilst delivering increased visibility and control.
- The Marco Polo website was refreshed and supported by further investment in digital marketing.
- A number of brands were launched on local marketplaces across eBay, Catch Group and Amazon, with more planned to go live in H2 FY2019 including a brand new Russell Athletic E-Commerce site that will be launched in H2 FY2019.

Online and Loyalty Growth (H1 FY2015 – H1 FY2019)





Wholesale, Design & Distribution

H1 FY2019 Wholesale Sales up $18.6m (32.1%) to $76.4 million

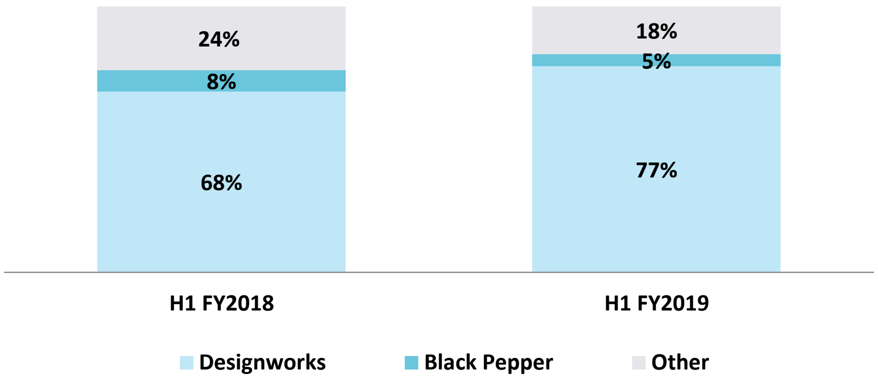
Designworks

- The increase in wholesale sales reflects the successful execution and strong customer take-up of new Designworks contracts and sustained increases in previous contracts including:
  - Successful execution and delivery of the new Coles Women's Mix range;
  - A full year of Lonsdale in Target;
  - The highly successful relaunch of our Suburban brand in Target, which has performed ahead of expectations;
  - Continued growth in Sports Equipment following new licence agreement with Dunlop and The Australian Open;
  - Continued growth in Footwear, including the successful launch of Lonsdale footwear in Target; and
  - Relaunch of Russell Athletic in January 2019 with strong early orders received.
- With an encouraging pipeline of orders going forward, Designworks is well positioned for continued sustainable growth in H2 FY2019 and beyond.

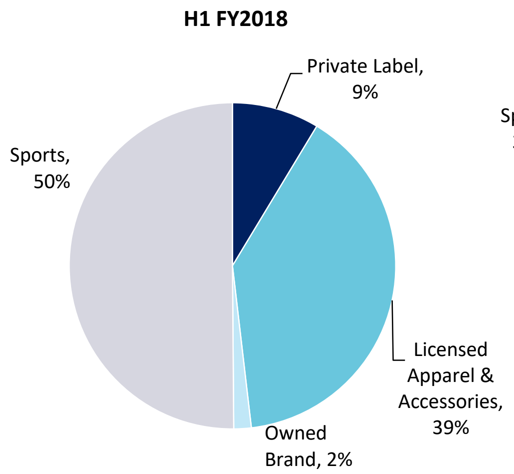
Other Wholesale

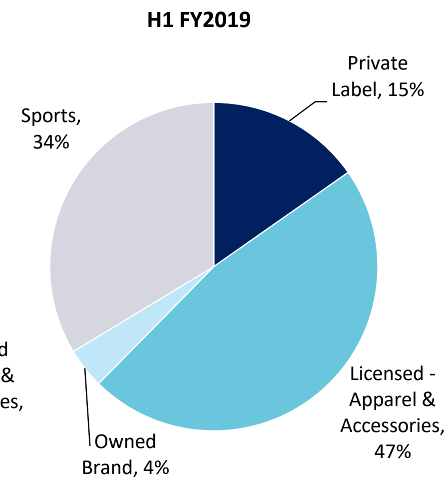
- The strategic closure of Independent Wholesale and transition to Retail within Black Pepper has begun successfully with final Independent orders now delivered.
- The Group has invested further in infrastructure to support the international growth of JETS. Whilst early signs are encouraging, realising the full benefit of this ongoing investment in new markets will take longer than originally anticipated.

Wholesale Sales by Brand – H1 FY2018 v H1 FY2019



Designworks Product Mix – H1 FY2018 v H1 FY2019



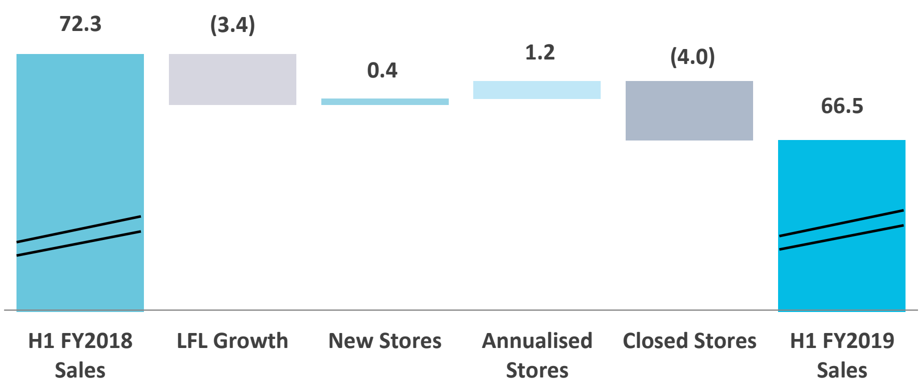


Retail Segment

Summary

- Retail sales decreased by **8.0%** to **$66.5m**. The key drivers were:
  - The impact of the tactical closure of 25 stores over the past 12 months (11 in H2 FY2018 and 14 in H1 FY2019); and
  - Negative LFL sales particularly in Myer concessions offset by
    - Online sales growth of **11.0%** in addition to the **25.5%** growth achieved in H1 FY2018;
    - The impact of the 3 new stores opened in H1 FY2019; and
    - The annualised impact of new stores opened and closed in FY2018.

H1 FY2018 to H1 FY2019 Retail Sales Bridge ($ million)



Retail Sites

- Review opened 1 store and one outlet whilst JETS opened one store in H1 FY2019.
- Active renewal and rationalisation of our store portfolio took place with 14 marginal or unprofitable stores strategically closed at lease end during H1 FY2019.

Total Retail Sites by Brand

	FY2018	Opened	Closed	H1 FY2019
Black Pepper	136	-	(10)	126
Review	116	2	(3)	115
JETS	3	1	-	4
Yarra Trail	1	-	(1)	-
Total Retail Sites	**256**	**3**	**(14)**	**245**

Future Growth Plan

Update on FY2019 key areas of focus

1. **Accelerate digital transformation across the portfolio through the Company's own websites and third party sites.**

   The Group continues to be the market leader in digital strategy and performance with Online sales representing 16.9% of the Group's total retail sales in H1 FY2019. Supporting this result were H1 FY2019 initiatives including a number of brands launching on local marketplaces across eBay, Catch Group and Amazon with more planned to go live in H2 FY2019 including a brand new Russell Athletic E-Commerce site that will be launched in H2 FY2019.

2. **Capitalising on the significant growth within our Designworks business as we realise the benefits from new brands and contract wins experienced during FY2018.**

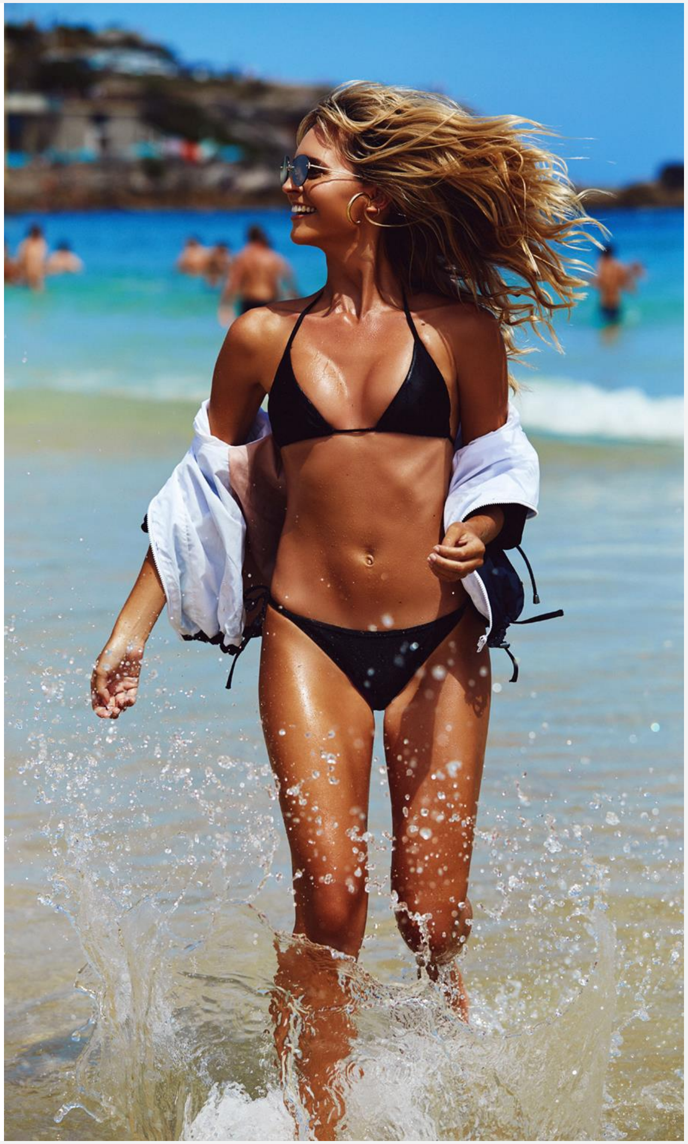
   Designworks achieved Wholesale sales growth of 51% in H1FY2019 following the successful execution of significant contract wins. This included Lonsdale in Target and selected sporting retailers, the relaunch of our own-brand Suburban in Target, the Coles Women's Mix program and the relaunch of Dunlop as a major tennis apparel and equipment brand. Strong early orders have been received for Russell Athletic which was relaunched in January 2019.

3. **Continued focus on the international growth of our Swimwear division**

   The Group has invested further in infrastructure to support the international growth of JETS. Whilst the take-up has been slower than first hoped, this initial investment has placed JETS in a strong position to deliver sustained future growth across international markets including USA, UK, Europe, Asia and The Middle East.

4. **Continued focus on the financial discipline through cost and capital management initiatives**

   CODB is 400bps lower than H1 FY2018 which is a direct result of a strong cost culture and focusing on investment for growth, economies of scale in expanding the Designworks portfolio and the planned closure of 25 marginal or unprofitable retail stores.



Future Growth Plan

Update on FY2019 key areas of focus

5. **Focus on the execution of our new Black Pepper strategy as we exit our independent wholesale channel in order to focus on retail**

   The strategic closure of Independent Wholesale and transition to Retail within Black Pepper has begun successfully with final Independent orders delivered. The Group is in a strong position to capitalise on implementing the Retail model in H2 FY2019.

6. **Continued rationalisation of our store portfolio**

   As consumer spending continues to contract and digital sales gain more momentum, PAS remains focused on ensuring store profitability, closing 14 stores in H1 FY2019 (25 over the past 12 months) where levels of return were not considered appropriate, including cases where we concluded landlord rental expectations were unrealistic in the current market.

7. **Heightened focus with our key concession partners to address the ongoing decline in our Review Concession business**

   We are continuing to exploring a range of strategic opportunities to help strengthen the concession business and position it for future growth with encouraging discussions being held with our concession partners.

Growth Strategy and Outlook

Strategy and execution:

- Focus on digital and loyalty strategy driving strong year on year omnichannel sales;
- Designworks growth from execution of new contract wins including Coles Women's mix, Lonsdale, Suburban and Dunlop;
- The relaunch of Russell Athletic in January 2019 has been well received by the consumer;
- The Group is planning to launch new ranges in Accessories and Underwear in Q4 FY2019;
- Continued progress on the delivery of sustained swimwear growth across international markets including the USA, UK, Europe, Asia and The Middle East;
- Strategic exit of the independent wholesale market and transitioning to a retail model in Black Pepper is on track;
- Heightening our focus with key concession partners to address the declining performance of our Review concession business; and
- Continuing our strategic review through the engagement of Houlihan Lokey who are assessing our efforts in exploring a range of strategic opportunities to help strengthen the business and position it for future growth.

Outlook:

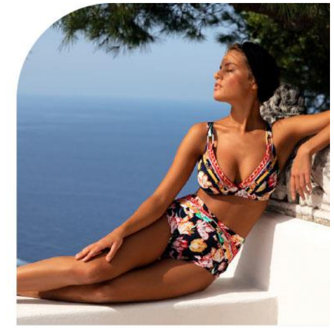
- The Group expects full year Underlying EBITDA[1] to be between $8.0 million and $10.0 million.[2]

1 Underlying EBITDA is a non-IFRS unaudited measure defined for the purpose of this document as earnings before interest, tax, depreciation, amortisation, non-recurring income/expenditure and certain non-cash items such as share based payment expenses recognised in accordance with AASB 2 *Share-based payment*.

2 Underlying EBITDA has been adopted as a guidance measure on the basis that the Directors believe it provides the most meaningful measure of the Company's performance.










H1 FY2019 Financials

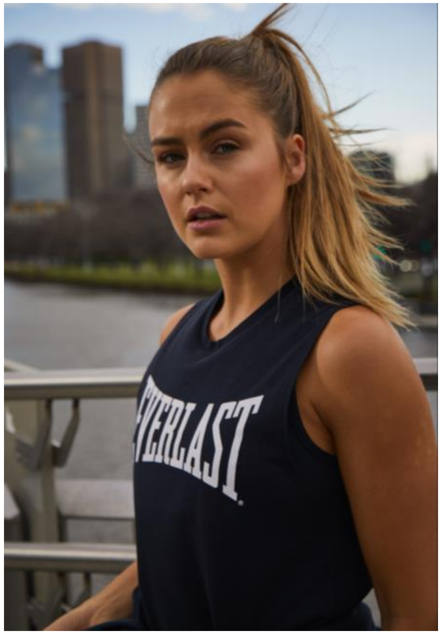
Sales by Brand and Segment

Actual ($ millions)	H1 FY2019	H1 FY2018	Var
WHOLESALE			
Designworks	59.7	39.5	**+51.0%**
Black Pepper	3.5	4.6	**-22.9%**
Other Businesses	13.2	13.7	**-3.9%**
Wholesale Sales	**76.4**	**57.8**	**+32.1%**
RETAIL			
Review	35.4	38.9	**-9.1%**
Black Pepper	26.5	29.0	**-8.6%**
Other Businesses	4.7	4.4	**+7.7%**
Total Retail Sales	**66.6**	**72.3**	**-7.9%**
Total Sales	**143.0**	**130.1**	**+9.9%**
Retail Sales % of Total Sales	*46.6%*	*55.5%*	
Wholesale Sales % of Total Sales	*53.4%*	*44.5%*	
Retail Sales Growth (%)	*-7.9%*	*0.4%*	
Wholesale Sales Growth (%)	*+32.1%*	*-7.1%*	

- Review sales were negatively impacted by challenging market conditions, offset by growth driven by a strong online result and the annualisation of stores opened during FY2018.
- Black Pepper retail traded solidly in a challenging environment, with the reduction in sales due to the planned closure of 16 marginal or unprofitable stores. The planned strategic closure of Independent Wholesale resulted in reductions to wholesale sales.
- Increases to sales in Other Businesses was driven by JETS retail presence including online.
- Designworks grew significantly in H1 FY2019 across fashion apparel, sports equipment, footwear and new ranges in accessories and underwear as it began delivering on new contracts won in FY2018.

Earnings Reconciliation

A$ millions	H1 FY2019	H1 FY2018	Var
Underlying EBITDA[1]	**6.7**	**9.3**	**-28.4%**
Depreciation & Amortisation	(3.6)	(3.8)	
Underlying EBIT	**3.1**	**5.5**	**-45.1%**
Finance Costs	(0.4)	(0.3)	
Underlying NPBT	**2.6**	**5.2**	**-50.7%**
Underlying Adjustments	**(1.0)**	**(1.0)**	
- Non-cash release of deferred consideration	0.6	0.0	
- Redundancy/termination payments	(0.2)	0.0	
- Corporate costs[2]	(0.2)	(1.0)	
- Non-cash share based payments	(0.2)	0.1	
- CEO transition costs	(0.2)	0.0	
- Designworks[3]	(0.9)	0.0	
Reported NPBT	**1.6**	**4.3**	**-63.5%**
Tax Expense	(0.3)	(1.3)	
NPAT – Reported	**1.3**	**3.0**	**-57.5%**



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2 Corporate costs includes takeover defence costs, strategic consulting costs and other tax and legal costs of a non-recurring nature.

3 Designworks includes the financial impact of the collapse of a major supplier and a one-off payment associated with historical licences relating to the financial period FY14-FY18.

Balance Sheet

Statutory ($ millions)	31 December 2018	30 June 2018
Cash and Cash Equivalents	3.6	-
Trade and Other Receivables	23.3	19.3
Inventory	35.6	36.0
Property, Plant and Equipment	10.8	12.7
Deferred Tax Assets	7.1	6.4
Goodwill & Other Intangible Assets	83.8	84.0
Other Assets	9.1	7.0
Total Assets	**173.3**	**165.4**
Trade and Other Payables	21.0	20.0
Financial Liabilities	5.0	0.7
Deferred Tax Liabilities	8.6	7.9
Other Liabilities	15.2	14.5
Total Liabilities	**49.8**	**43.1**
Net Assets	**123.5**	**122.3**

- Final net debt of **$1.4m** was driven by the timing of working capital (noting that the Group returned to a net cash surplus on 2 January 2019).
- Working capital continues to be well managed and only increased by **$2.6m** during a period of sustained wholesale growth in Designworks. Going forward, the continued transition from Independent Wholesale to Retail in Black Pepper is expected to provide further working capital relief.
- PP&E decreased due to the reduction in new store openings.

Cash Flow Statement

Statutory ($ millions)	H1 FY2019	H1 FY2018
Net profit after tax	1.3	3.0
Non-cash Adjustments	3.6	4.5
Cash profit	4.9	7.5
Movement in Working Capital	(2.6)	1.3
Movement in Trade & Other Receivables	(4.0)	2.5
Movement in Inventories	0.4	1.4
Movement in Trade & Other Payables	1.0	(2.6)
Movement in provisions and prepayments	(0.7)	(0.6)
Net cash flow from operations	**1.6**	**8.2**
Payments for Businesses	-	(0.1)
Capital Expenditure	(1.4)	(3.9)
Lease Incentives	0.2	0.2
Net cash flow before financing activities and tax	**0.4**	**4.4**
Income Tax Payments	(0.6)	(1.2)
Net Interest	(0.4)	(0.3)
Dividends Paid	-	(2.1)
Net Cash Flow	**(0.6)**	**0.8**

- Positive net cash flow from operations
- Net cash flow from operations impacted by:
  - increased working capital requirements to support the growth in Designworks, and
  - timing of working capital with **$4.2m** of receipts from wholesale customers being receipted on 2 January 2019.
- Capital Expenditure in H1 FY2019 represents targeted investment in new stores and refurbishments and the ongoing development of our online and loyalty infrastructure.
- Net cashflow further impacted by the timing of the **$1.4m** FY2018 tax refund which was receipted on 5 January 2019.

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