25 February 2019

THE PAS GROUP LIMITED H1 FY2019 RESULT

The PAS Group Limited (ASX: PGR) ("PAS", "the Group" or "the Company") today reported total revenue for the half year ended 31st December 2018 of $143.7 million and statutory earnings before interest, tax, depreciation and amortisation (Statutory EBITDA) of $5.7 million which is within the guidance range outlined previously. Underlying EBITDA[1] for the half was $6.7m.

A summary of the Company's financial performance for the half year ended 31 December 2018 is shown below:

$ million	H1 FY2019	H1 FY2018	% Change
Total Revenue	$143.7	$130.3	+10.3%
Underlying EBITDA	$6.7	$9.3	-28.4%
Statutory EBITDA	$5.7	$8.4	-32.4%
NPAT	$1.3	$3.0	-57.5%

The H1 FY2019 result was driven by:

- Online sales growth of 11.0% on top of the 25.5% growth achieved in H1 FY2018 with Loyalty membership up 39.8% YoY to 1.2 million members;
- A 32.1% increase in Wholesale sales as a result of significant H1 FY2019 growth in Designworks across fashion apparel, sports equipment, footwear and accessories as the business began delivering on new contracts won in FY2018;
- A decline in like-for-like Retail sales due to the continuation of challenging trading conditions. This was most notably impacted by reduced concession sales in Department Stores;
- A 6.4% reduction in overall gross profit margin due to a 51% increase in lower margin Designworks wholesale sales. This change resulted in a 9% increase in the total Wholesale vs Retail mix compared to H1 FY2018; and
- A CODB decrease of 4.0% of sales due to tight cost control, economies of scale achieved through the expansion of Designworks and the closure of 25 marginal or unprofitable retail stores since 31 December 2017 as part of the planned retail portfolio rationalisation.

[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*.

SEGMENT PERFORMANCE

Online

Strong growth in online sales of 11.0% was achieved with online sales now representing 16.9% of total Retail sales, up from 14.0% in H1 FY2018. This growth was driven by continued investment in the online customer experience to accelerate digital transformation across the portfolio. The successful implementation of our new Customer Data Platform has helped deliver YoY growth of 39.8% in our loyalty program, which now totals 1.2 million members.

Wholesale

Total Wholesale sales were up 32.1% to $76.4 million. Our Designworks business was up more than 50% YoY with sales of $59.7 million with Designworks beginning to deliver on new contracts won in FY2018 in fashion apparel, sports equipment, footwear and accessories.

The Group has invested ahead of the curve to support growth in the Designworks portfolio and the international expansion of JETS. Whilst we are encouraged by the initial response to JETS internationally, the take-up has been slower than anticipated. However, the Group remains focussed on broadening its position within the swimwear market and continuing to expand its distribution in international markets.

In other Wholesale, Yarra Trail had a strong half year and Black Pepper was in line with expectations with the continued shift from Independent Wholesale to Retail in line with plan.

Retail

Total Retail sales were down 7.9% to $66.6 million. This $5.8 million reduction in retail revenue included $4.0 million related to the closure of 25 marginal or unprofitable bricks and mortar stores since 31 December 2017 in line with our plan of rationalising our store portfolio and opening fewer standalone stores. Sales grew through three new stores opened during the period and the impact of stores opened during FY2018, as well as growth in online sales. Like-for-like sales across the Retail business were negatively impacted by ongoing subdued consumer sentiment and an industry-wide reduction in bricks and mortar traffic along with unusually high promotional activity.

GROWTH OPPORTUNITIES

Notwithstanding the difficult retail trading environment, PAS remains focussed on investing in the execution of its key strategic initiatives to deliver increased sustainable earnings. These initiatives include:

- capitalising on the significant growth opportunities within Designworks as the Group realises the benefits from new brands and contract wins in FY2018;
- the continued delivery of best-in-class customer experience across both our bricks and mortar and digital platforms;
- swimwear growth across international markets including the USA, UK, Europe, Asia and The Middle East;
- exiting the Independent Wholesale market and transitioning to a retail model in Black Pepper;
- continued store network rationalisation and closure of stores where returns are considered to be sub-optimal or landlord rental expectations are uneconomic;
- heightening focus on key concession partners to address the declining performance of our Review concession business; and
- continuing to explore a range of strategic opportunities to help strengthen the business and position it for future growth with the support of our advisers Houlihan Lokey.

Eric Morris, Chief Executive Officer of PAS commented: "With the retail apparel industry undergoing a significant transformation, we need to further enhance our agility, customer focus, and culture of innovation. The Board and Management team remain fully committed to creating and unlocking value for all our stakeholders with the first half seeing a continued period of consolidation and investment in key initiatives that we believe will support sustainable earnings growth."

CAPITAL MANAGEMENT PLAN

The Company closed the half with no long-term debt and a net debt balance of $1.4 million (returning to a net cash positive position due to the timing of working capital on 2 January 2019). Whilst the success of the Designworks wholesale business in growing sales by 51% resulted in increased working capital absorption, the Groups total working capital only increased by $2.6m or 7.4% during the half.

During the first half excess operating cashflows were reinvested to continue to progress digital transformation across the portfolio and to facilitate the growth plans for Designworks' footwear, underwear and accessories divisions and the international growth of the swimwear division.

This continued focus and investment in the future growth and development of these and other strategic opportunities has been prioritised and subsequently the Board has not declared an interim dividend.

OUTLOOK

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

Mr Morris commented: "The macro-economic pressures from 2018 have continued and in some ways intensified in the first half of FY2019 as competition for the consumer wallet remains at an all-time high.

Despite this, the Group continues to make considerable inroads in key strategic areas while delivering substantial online growth and scaling our Designworks business through recent contract wins. This growth has been achieved along with strong cost discipline and considered management of working capital.

The team is focussed on achieving longer term strategic and operating priorities for each of our online, retail, and wholesale channels, within our core and new growth markets. PAS remains long term debt free, has a strong balance sheet and continues to evaluate potential strategic opportunities."

-ENDS-

For further information, please contact:

The PAS Group
Mr Eric Morris
Chief Executive Officer & Managing Director
(03) 9902 5501

Citadel-MAGNUS
Mr Matthew Gregorowski
(02) 8234 0100

[2] Underlying EBITDA as previously defined 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.