29 August 2019

THE PAS GROUP LIMITED FY2019 FINANCIAL RESULT

The PAS Group Limited (ASX: PGR) ("PAS", "the Group" or "the Company") today reported total revenue for the full year ended 30 June 2019 of $273.6 million and underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA[1]) of $8.6 million for the continuing business, in line with guidance.

Total sales were up 9.2%, driven by a 29.7% increase in Wholesale sales to $148.6 million. This was partially offset by an 8.2% reduction in retail sales to $124.0 million.

Underlying EBITDA for the year of $8.6 million was net of $1.8 million in normalisations, including $0.9 million relating to strategic action costs.

Non-cash impairment charges of $1.0 million were incurred relating to expired licences in the Designworks wholesale business and contributed to the Net Loss after Tax from the continuing business of $1.6 million, an improvement of 35.8% on prior year.

The Company is taking active steps to divest the White Runway business. The results of this business have been disclosed as part of discontinued operations. The Net Loss after Tax for the total business, including White Runway, was $1.8 million.

A summary of the Company's financial performance for the full year ended 30 June 2019 is shown below:

$ million	FY2019	FY2018	% Change
Total Sales Revenue	$273.6	$249.6	+9.2%
Underlying EBITDA	$8.6	$11.7	-26.9%
NPAT – Continuing	-$1.6	-$2.5	+35.8%
NPAT – Total	-$1.8	-$2.9	+34.5%

The FY2019 result was driven by:

- A 29.7% increase in Wholesale sales as a result of the significant growth in Designworks across fashion apparel, sports equipment, footwear and accessories outweighing the planned exit of the Black Pepper Independent Wholesale channel, which completed in H1;

[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 impairment and share based payment expenses recognised in accordance with AASB 2 *Share-based payment*.
A reconciliation between Underlying EBITDA and the FY2019 audited financial statements is provided in the Investor Presentation accompanying this announcement.

- Online sales growth of 5.6% on top of the 17.2% growth achieved in FY2018, with Loyalty membership up 37% year-on-year to 1.3 million members;
- The closure of 25 marginal or unprofitable retail stores as part of the Company's planned retail portfolio rationalisation and a decline in like-for-like Retail sales of 4.1% due to ongoing challenging trading conditions including reduced concession sales in Department Stores;
- A 6% reduction in overall gross profit margin percentage, reflecting the change in mix with lower-margin Designworks wholesale sales making up a larger proportion of overall sales compared to FY2018; and
- A CODB decrease of 4.2% of sales due to tighter cost control and economies of scale achieved through the expansion of Designworks.

Eric Morris, Chief Executive Officer commented: "In what has been a particularly challenging year for the retail apparel market, we offset some of the impact of softer sales in our own stores and department store concessions with growth in our online and Designworks businesses. We continued to execute with a disciplined approach to cost and working capital management, while making further progress in implementing our strategic growth plans."

SEGMENT PERFORMANCE

Wholesale

Total Wholesale sales were up 29.7% to $148.6 million. Our Designworks division was up 46% year on year with sales of $118.5 million as the business delivered on new contracts won in FY2018 in fashion apparel, sports equipment, footwear and accessories.

The division benefited from prior investment to support growth in the Designworks portfolio as well as the international expansion of the JETS swimwear business. However, the international take-up of JETS has been slower than anticipated while building a scalable infrastructure continues in this highly competitive sector.

In other Wholesale, Yarra Trail had a strong year and the planned strategic exit from Independent Wholesale for Black Pepper was completed in the first half in line with plan.

Online

Online sales (excluding White Runway) grew 5.7% and now represents 14.5% of total Retail sales, up from 12.6% in FY2018. This growth was driven by continued investment in the online customer experience to accelerate digital transformation across the portfolio. The implementation of our new

Customer Data Platform was successfully completed in the first half and has helped deliver year on year growth of 37% in our loyalty program, which now totals 1.3 million members.

Retail

Total Retail sales were down 8.2% to $124 million. This included a reduction of $8.9 million related to the closure of 25 marginal or unprofitable bricks and mortar stores, in line with the Company's strategy to rationalise the store network and close stores where returns were sub-optimal or landlord rental expectations uneconomic.

Sales grew modestly through five new stores opened during the period and through the annualised impact of stores opened during FY2018, as well as growth in online sales. Like-for-like sales across the Retail businesses were down 4.1%, impacted by ongoing subdued consumer sentiment and industry headwinds related to a reduction in bricks and mortar traffic, unprecedented levels of promotional activity, and reduced concession sales in Department Stores.

GROWTH OPPORTUNITIES

Continuing Business

Notwithstanding the difficult retail trading environment, the Group continues to invest in the execution of its key strategic initiatives to deliver sustainable growth in its earnings. Consistent with FY2019, PAS is focussed on further rationalisation of its bricks and mortar store network whilst continuing to invest in its digital presence to deliver a best in class holistic customer experience. The transition to a retail model for Black Pepper is also making that business more dynamic, allowing it to better respond to customer needs.

The Group remains focussed on driving scalable growth through its key wholesale partners, and recently established an Underwear division in Designworks to capitalise on significant multi-branded growth opportunities.

JETS swimwear expansion into international markets continues to be a priority and increasing this rate of expansion remains a key opportunity.

Strategic Opportunities and CEO Transition

As previously disclosed, Houlihan Lokey has been assisting PAS with its ongoing review of a range of strategic opportunities to transform the business and position it for future growth. This process is ongoing and PAS will keep the market informed as appropriate. This resulted in $0.9 million in strategic action costs for the year.

As announced on 22 October 2018, Eric Morris was set to retire as CEO during FY2019 and be succeeded by Paul Burdekin, who was appointed into the new role of Chief Commercial Officer. Paul has assumed additional responsibility within the business with Paul's transition into the CEO role ongoing.

CAPITAL MANAGEMENT

The Company closed the year debt free and with a net cash balance of $0.3 million. Whilst the successful growth of the Designworks wholesale business resulted in increased working capital absorption, this was offset by the anticipated positive effects of exiting the Black Pepper Independent Wholesale market in H1 FY2019. The net benefit was a $1.4 million or 3.9% decrease in the Group's total working capital year-on-year.

Whilst the business generated positive cash flows, consistent with prior reporting periods excess operating cashflows were reinvested into the business. With this focus on investment in the Company's future growth and the development of strategic opportunities continuing to be a priority, the Board has decided not to declare a final dividend.

OUTLOOK

Over the first eight weeks of FY2020 the Group generated like for like retail sales growth of 1.4%. The Group remains focussed on executing its longer term strategic and operating priorities for its online, retail and wholesale channels in both existing and new markets. It will continue to rationalise uneconomic stores, while maintaining a tight focus on cost control and working capital management.

Mr Morris concluded: "Whilst intensifying macro-economic pressures and industry headwinds continue to challenge the operating environment, we are executing on a number of strategic priorities aimed at delivering long term sustainable earnings. Meanwhile, we closed the year debt free and are well placed to capitalise on any opportunities that would create value for our shareholders."

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