The PAS Group Limited (ASX: PGR)
ABN 25 169 477 463

MARKET ANNOUNCEMENT

2019 Annual General Meeting

Chairman and CEO Addresses to Shareholders

CHAIRMAN'S ADDRESS

Introduction

So with that, let me first thank you – our Shareholders – for your continued support. And let me thank our Associates for their extraordinary commitment and effort.

The PAS Group has a long heritage of serving both our wholesale partners and retail customers as we build and steward some terrific brands. Eric will provide further detail about our operational achievements this past year, as well as our near-term priorities for building upon this heritage.

But let me first say that FY2019 has been a period of meaningful change for PAS within a difficult retail environment. We undertook an ambitious roster of performance improvement initiatives, some of which gained traction while others remain work in progress.

We had good success in our Designworks, Yarra Trail, Black Pepper and Digital businesses:

- Designworks nearly doubled its division-level EBITDA, propelled by expansion into new products and product categories. The priority here being investment in people and process to shore up our ability to further scale;
- Yarra Trail's continued and disciplined approach resulted in meaningful growth of its EBITDA contribution;
- Black Pepper's exit of independent wholesale freed up meaningful working capital and improved our overall profit efficiency by stemming less productive sales; and lastly
- Our Omnichannel growth has continued with Online now accounting for 15% of retail revenue.

On the other end of the spectrum, Review and our Swimwear divisions had real challenges, some of which were the result of macroeconomic headwinds, while others were self-inflicted:

- Review remains one of the top-performing women's brands in our department store partners' portfolio. That said, however, like-for-like sales were disappointing across the fleet, resulting in significantly lower EBITDA contribution. We have hired a talented new General Manager to lead the Review brand, the first dedicated GM for the business in several years, and we are encouraged by the progress being made by the team; and

- Whilst we have made significant investments into our Swimwear division to drive international growth, traction to date has been slower than we had hoped. That said, we continue to pursue ways to leverage our investment in this business and to support expansion both here and overseas.

Business Transformation

Set against that context, I want to be clear that our posture for PAS remains transformative as we seek to create and unlock value.

Throughout FY2019, we worked with advisors to explore alternatives to strengthen the business and maximize shareholder return. In the pursuit of these endeavours, a meaningful amount of board and management time was committed, and material non-trading costs incurred. These efforts continue today.

Board and Leadership Team

As announced last October, Paul Burdekin was appointed Chief Commercial Officer with the intention of succeeding Eric upon his retirement from PAS. With the process of assessing strategic options ongoing, Paul has elected to pursue other opportunities and Eric has agreed to continue in his role as CEO.

The timing of this change relative to the AGM has resulted in the absence of a resolution related to Eric's participation in The PAS Group Long Term Incentive Plan. It is the Boards intention to seek shareholder approval for the uninterrupted continuation of the CEO's participation in such plan at the next General Meeting of the Group.

We are also undertaking renewal at the board level to ensure PAS has the appropriate mix of skills and experience for the road ahead. As previously announced, Craig Holland elected to not stand for re-election at today's AGM, when he will cease to be a director. Craig has been a valued member of the Board for the last three years and we wish him well. We expect soon to announce the appointment of a new, independent, Australian-based non-executive director to replace Craig and to assume his responsibilities as Chair of the Audit & Risk Committee.

Conclusion

In closing, on behalf of the Board I would like to sincerely thank our customers and suppliers, team members and shareholders for your support.

I will now hand the meeting over to Eric Morris, our Group Managing Director and CEO.

MANAGING DIRECTOR AND CEO'S ADDRESS

Thank you, Adam.

Good morning, everyone.

I will start off by running through the key themes of the FY2019 results and provide an overview of operations, including some of the key achievements against our objectives that we set at the beginning of the year. I will then conclude by providing an updated outlook on the business.

FY2019

Total Sales Revenue was up 9.2% on the prior year to $273.6m. Underlying EBITDA was down 26.9% to $8.6m with NPAT from continuing operations of -$1.6m, an improvement of 35.8% on last year.

The FY2019 result was driven by an increase in our Wholesale sales as a result of the significant growth in our Designworks division across fashion apparel, sports equipment and accessories, which outweighed our planned exit of Independent Wholesale in Black Pepper, which was completed in the first half.

Online sales grew 5.7% and now represents 14.5% of retail sales, up from 12.6% in FY2018.

Total retail sales were down 8.2%. This included a reduction of $8.9m relating to the closure of 25 marginal or unprofitable stores in line with our strategy. Like-for-like retail sales were down 4.1%.

The change in mix from retail to wholesale resulted in a 6% reduction in gross profit margin.

The trading environment overall has been challenging. Pressures on discretionary spending in the retail space have intensified with an unprecedented level of promotional activity in the market.

Whilst we are disappointed with the results for FY2019, there were a number of positives:

- The continued growth and performance of our Designworks Division with record sales of $118m, up 46% on the prior year, this included the launch of a number of new brands and categories as well as a new deal being signed as part of our relationship with Tennis Australia for the official merchandise rights commencing with the 2020 Australian Open;
- Online growth of 5.6% on top of the 17.2% growth in the prior year as we continued to invest in people and Omnichannel infrastructure to exploit our own direct to consumer channels and 3rd party marketplaces;
- The implementation of our new Consumer Data Platform resulting in an in-depth knowledge of our consumer behaviours and enabling more personalised communication, with growth in our loyalty programs increasing by 37% to 1.3m members which now accounts for 78% of retail sales;
- A controlled approach to cost and working capital management resulting in a CODB decrease of 4.2% of sales;
- The disciplined management of our retail portfolio with the closure of 25 marginal or loss-making stores where returns were sub-optimal and landlord expectations were uneconomic. We opened 5 new stores where attractive deals were available with landlord-contributed fit outs; and
- The hiring of top talent in key areas of the business.

FY2020

Looking to the year ahead, whilst we expect market conditions to remain challenging for the retail sector with macroeconomic headwinds, competitive pressures and weak consumer sentiment set to continue, the team is extremely focussed on the areas of the business that are within our control.

Our key priorities for FY2020 are as follows:

1. **Review turnaround** – under Karen Brewster our new Review General Manager, focusing on a number of new product and operational initiatives whilst leveraging our recently signed exclusive concession agreement with Myer under more attractive terms;

2. **Omnichannel as a core focus** – investing in Omnichannel to ensure that there is a seamless and frictionless customer experience to accelerate digital transformation across the portfolio; including an enhanced focus on the single customer view across our Omnichannel environment;

3. **Product and brand extensions** – investing in Designworks growth in Sport, Footwear, Underwear and licensing, maximising new opportunities through the Dunlop relationship with Tennis Australia and The Australian Open, and capitalising on the opportunity for international expansion through the recently signed Dunlop deal and Russell Athletic;

4. **Store portfolio management** – rationalising the store portfolio, closing stores where returns are below expectation and rental expectations are uneconomic; while also opening selected stores where it makes economic sense;

5. **Customer loyalty** – focusing on personalization through our new Consumer Data Platform; and

6. **Continued focus on costs** – maintaining a tight focus on costs and working capital management.

In addition to delivering these priorities, the company will be focused on the following:

- **Retail fundamentals** – a continued deliberate emphasis on core disciplines around retail execution and visual merchandising to enhance our retail brands, inventory management and cost control;

- **Black Pepper transition from independent wholesale** – continued emphasis on maximising our retail outcomes as we move into a full year of the transition;

- **JETS turnaround** – additional focus on driving outcomes from the investment in JETS, particularly internationally; and

- Maximizing opportunities in our core brands **Yarra Trail** and **Marco Polo**.

<u>Outlook</u>

Retail sales for the first four months have been subdued despite interest rate cuts and the moderated stimulus via tax cuts. Consumer sentiment remains soft, resulting in lower levels of foot traffic both in shopping centres and our stores.

Our consolidated trading result over the first four months of FY2020 is broadly in line with plan, though the mix has varied. Retail comp sales are 0.5% up on last year, an improvement on the negative 4.2% in FY2019.

Our Omnichannel investment continues to be a key driver for the business with Online off to a solid start this new financial year.

However, forward orders in our JETS, Yarra Trail and Marco Polo wholesale businesses are trending below expectations due to department stores reducing their open to buy. JETS international growth also continues to be slower than anticipated.

Christmas is a key time for our retail business, and we are working tirelessly to ensure that we delight and excite our customers with an outstanding range and Omnichannel offering across all our brands.

The business ended the reporting period debt free and has a multi-option facility in place, available to help fund working capital throughout the year as required. Discussions with our banking advisor to refinance our existing arrangements which expire in January 2020 are well progressed.

In conclusion, I would like to thank the shareholders for their ongoing support as well as the entire PAS team for their commitment, hard work and dedication.

I will now hand back to Adam for the formal section of the meeting.

RETURN TO CHAIRMANS ADDRESS

Thank you, Eric.

Before we move on to the formal section of the meeting, are there any questions about the business?