24 February 2020

The PAS Group Limited – H1 FY2020 Results Briefing

ABN 25 169 477 463

H1 FY2020 Results Summary

Financial Summary

- Total sales down by **7.7%** to **$129.9 million**.
- Retail sales reduced by **4.2%** to $61.7 million driven by the closure of 42 marginal or unprofitable stores since the prior corresponding period. However like-for-like Retail sales increased by **1.6%** despite the continued negative industry sentiment and aggressive promotion-based competition.
- Online sales penetration increased to **17.3%** of total Retail sales, up from 14.4% in H1 FY2019. Total Online sales growth was **16.3%** with Loyalty membership up 16% year on year to 1.4 million members.
- Wholesale sales decreased by **10.6%** to $68.2 million. The decrease was driven by the volume and timing of orders recognised in our Designworks business (which achieved more than 50% sales growth in the prior corresponding period), the strategic discontinuation of independent wholesale in Black Pepper and lower domestic and international sales in JETS.
- Gross profit margin improvement of **1.5%** up to **51.7%** reflective of the slight shift in the retail/wholesale mix.
- Underlying EBITDA[1] from continuing businesses of **$3.7 million** was down $3 million on the prior year.




- Net Loss after Tax from the continuing business of **$1.0 million** was down $2.3m on the prior year.
- The Group does not hold any long-term debt and closed the half year with a cash surplus of **$4.8m**, up $6.2m on H1 FY2019.
- Working capital reduced by **$6.1m** or **16.4%** during the half as the Group continued its disciplined approach towards capital efficiency and cash maximisation.

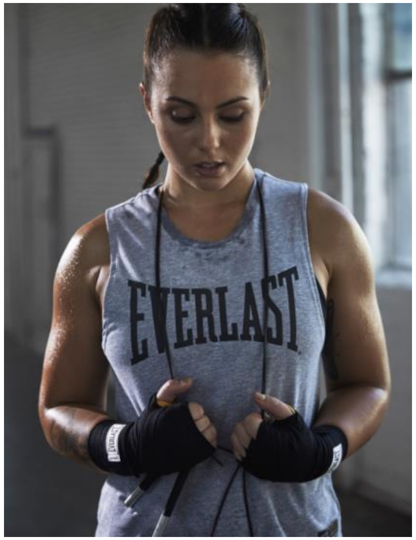
	HY2020	HY2019
Total Sales Revenue	$129.9 million	$140.7 million
Reported EBITDA	$10.1 million	$5.7 million
Underlying EBITDA[1]	$3.7 million	$6.7 million
NPAT – Continuing	($1.0 million)	$1.3 million
NPAT – Total	($1.2 million)	$1.3 million

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 and has been adjusted to exclude the impact of adopting AASB 16 *Leases*.

H1 FY2020 Results Summary

Operational Summary

- Consumer sentiment remained soft resulting in lower levels of foot traffic both in shopping centres and our stores. Despite the impact of recent bushfires and inclement weather on the communities we service, like-for-like retail sales increased **1.6%** on the prior year. This is an improvement on the negative 5.6% experienced in H1 FY2019.
- The Group continued its strategy to consolidate its portfolio, closing a further **17** marginal or unprofitable bricks and mortar stores. This included exiting the remaining **9** David Jones concessions and entering into an exclusive partnership agreement with Myer for our Review brand which is expected to deliver stronger margins and lower costs of doing business.
- We opened **6** new stores in strategically targeted locations during the period.
- PAS continues to be a market leader in digital sales, with online sales penetration increasing to **17.3%** of the Group's total retail sales in H1 FY2020, up from **14.4%** in H1 FY2019. The key initiatives driving online growth are detailed on page 5.





H1 FY2020 Results Summary

Operational Summary (continued)

- Wholesale sales decreased by **10.6%** to $68.2 million. The decrease was driven by:
  - the volume and timing of orders recognised in our Designworks business which achieved more than 50% sales growth in the prior corresponding period as it began to deliver on new contracts;
  - the strategic discontinuation of independent wholesale in Black Pepper; and
  - lower domestic and international sales in JETS.
- Working capital reduced by **$6.1m** or 16.4% during the half as the Group continued its disciplined approach towards capital efficiency and cash maximisation. As a result, the Group closed the half debt free with cash on hand of **$4.8m** (31 December 2018: net debt of -$1.4m).

Retail Segment

Summary

- Retail sales reduced by 4.2% to $61.6m
- Movement was as a result of:
  - LFL sales increase of 1.6% (an improvement on the negative 5.6% experienced in H1 FY2019);
  - Online sales growth of 16.3% (compared to 14.2% growth in the comparative H1 FY2019 period);
  - The impact of new stores and annualised stores opened in FY2019; and
  - Continued consolidation within the store portfolio with the closure of 42 marginal, strategic or loss-making stores since the prior corresponding period.

H1 FY2019 to H1 FY2020 Retail Sales Bridge ($ million)

Retail Sites

- 6 new Retail sites opened in H1 FY2020:
  - Black Pepper; 2 stores, 1 outlet
  - Review; 1 store
  - Yarra Trail; 2 outlets
- The Group strategically exited its remaining 9 David Jones concession stores in H1 FY2020 and entered into an exclusive partnership agreement with Myer for our Review retail brand. This is expected to deliver stronger margins and lower costs of doing business.

Total Retail Sites by Brand

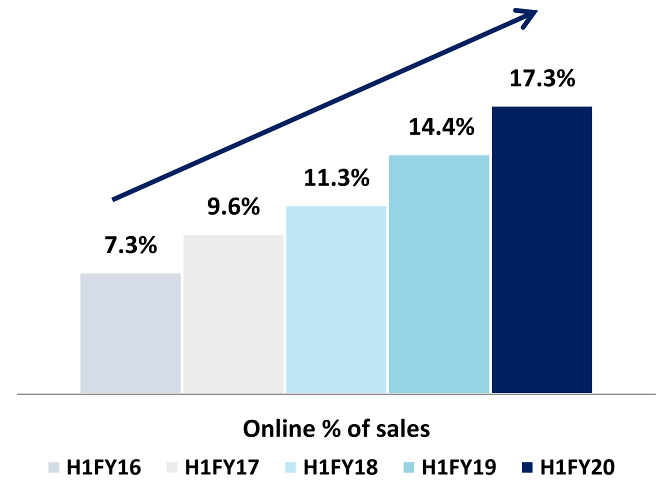
	FY2019	Opened	Closed	H1 FY2020
Black Pepper	124	3	(3)	124
Review	109	1	(14)	96
JETS	3	-	-	3
Yarra Trail	-	2	-	2
Total Retail Sites	**236**	**6**	**(17)**	**225**

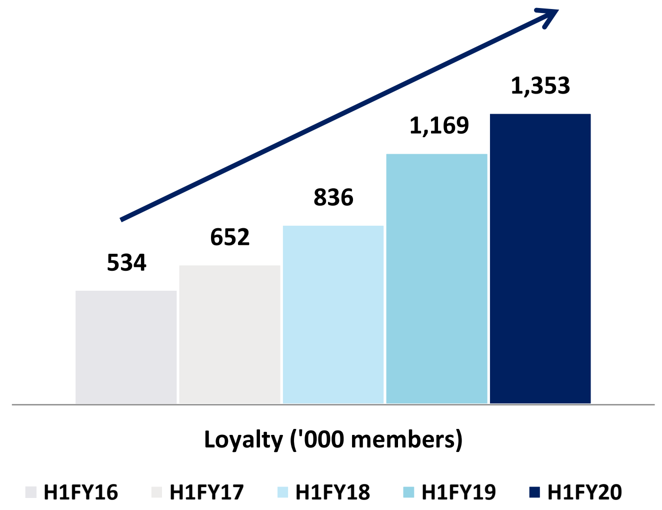
Operational Highlights - Online & Customer Loyalty

- Online sales penetration continued its positive trend, now representing **17.3%** of the Group's total retail sales in H1 FY2020, up from **14.4%** in H1 FY2019.
- Total online sales growth of **16.3%** was achieved in addition to the **14.2%** in H1 FY2019.
- The ongoing investment in the digital platforms continues to deliver increases in customer loyalty and has helped deliver annual membership growth across the Group of **16%**, which now totals **1.4 million** members and contributes **79%** of total Retail sales.
- The Group achieved increases to site conversion, average order value and cart size following the adoption of data-driven Artificial Intelligence tools implemented to optimise the digital experience.

1 Online and Customer Loyalty information has been presented on a continuing business basis, exclusive of White Runway which has been classified as a Discontinued Operation.

Online and Loyalty Growth[1]
(H1 FY2016 – H1 FY2020)





Wholesale, Design & Distribution

H1 FY2020 Wholesale Sales down $8.1m (10.6%) to $68.2 million

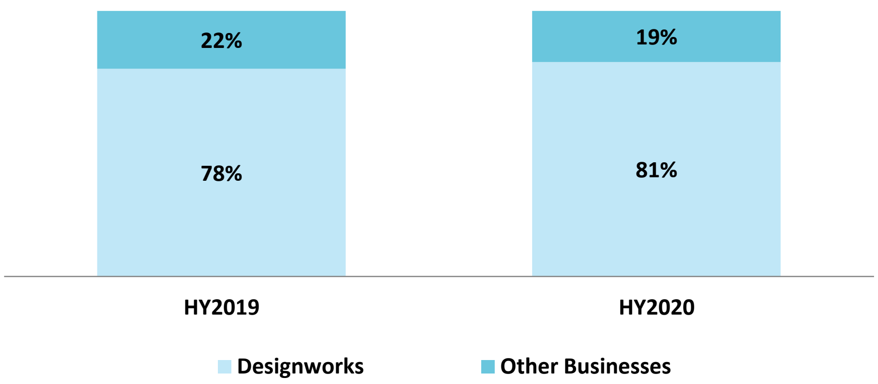
Designworks

- Whilst the Group was impacted by the timing of orders recognised in H1 FY2020, Designworks delivered on new contracts in fashion apparel, sports equipment, footwear and accessories including:
  - Strong performance within sporting equipment including the continued supply of Dunlop tennis balls, the official ball of the Australian Open;
  - New contract with Tennis Australia in the supply of AO branded apparel and accessories for the Australian Open;
  - There was a successful launch of Slazenger footwear in Big W; and
  - Annualisation of the David Jones generic kids apparel ranges, Russell Athletic apparel ranges and Spalding basketball distribution arrangement in New Zealand.

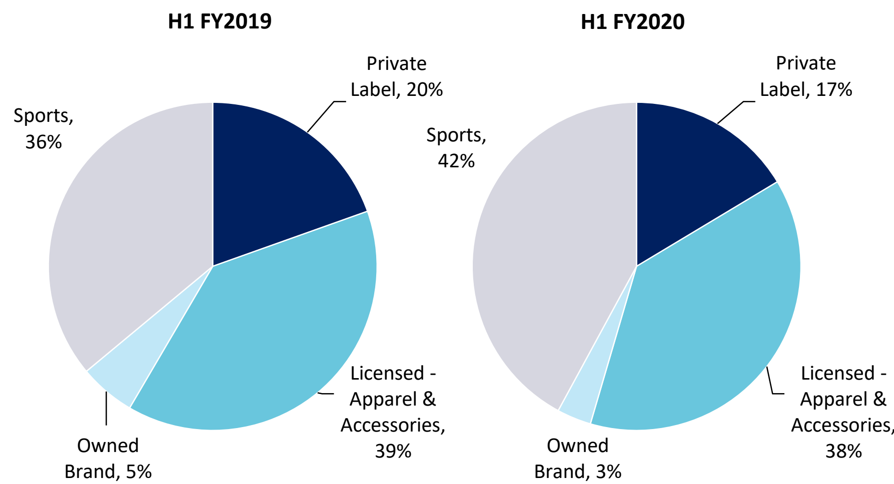
Other Wholesale

- The strategic closure of Independent Wholesale and transition to Retail within Black Pepper reduced net sales by -$1.9m in line with the Group's retail transition strategy for Black Pepper. Final orders were processed at the end of H1 FY2019.
- Yarra Trail's sales were consistent with the prior year whilst JETS sales remain subdued as accessing greater local department store open to buy and achieving penetration in international markets remains a key challenge.

Wholesale Sales by Division – H1 FY2019 v H1 FY2020



Designworks Product Mix – H1 FY2019 v H1 FY2020



Strategy and Outlook

Strategic priorities:

The Group is focussed on achieving its longer term strategic and operating priorities for each of our online, retail and wholesale channels within our core and new growth markets whilst maintaining a strong cost discipline and considered management of working capital.

Key areas of focus include:

- Continuing to drive total retail growth supported by an omnichannel strategy which prioritises growth and expansion through own websites and third-party marketplaces. Maintaining our bricks and mortar principle of closing stores where returns are considered to be sub-optimal or landlord rental expectations are uneconomic.
- Further strengthening our relationship with our key concession partner Myer by agreeing increased space and improved locations for Review.
- Consolidation and growth in Designworks by continuing to execute and deliver new and existing brands and capitalising on the recently established Footwear, Underwear and Accessories division to enable significant multi-branded growth opportunities.

The new Board has commenced a strategic review of the business and will provide an update at the end of the financial year.

Outlook:

The prolonged slowdown in industrial activity due to the spread of the coronavirus has resulted in delays to the resumption of production and shipping from China which we expect to have a negative impact on the industry as a whole and in particular on the delivery of orders to our wholesale and retail businesses.

Given the uncertainty this situation has created PAS is unable to provide full year profit guidance at this time.












H1 FY2020 Financials

THE PAS GROUP LIMITED

Sales by Brand and Segment

A$ millions	H1 FY2020	H1 FY2019	Var
RETAIL			
Review	32.3	35.4	(8.6%)
Black Pepper	26.5	26.5	0.0%
Other Businesses	2.9	2.5	14.7%
Total Retail Sales	**61.7**	**64.4**	**(4.2%)**
WHOLESALE			
Designworks	55.1	59.7	(7.7%)
Black Pepper	1.6	3.5	(55.1%)
Other Businesses	11.5	13.1	(11.7%)
Wholesale Sales	**68.2**	**76.3**	**(10.6%)**
Total Sales	**129.9**	**140.7**	**(7.7%)**
Retail Sales % of Total Sales	*47.5%*	*45.7%*	
Wholesale Sales % of Total Sales	*52.5%*	*54.3%*	
Retail Sales Growth (%)	*(4.2%)*	*(8.2%)*	
Retail LFL Growth (%)	*1.6%*	*(5.6%)*	
Wholesale Sales Growth (%)	*(10.6%)*	*32.0%*	

- Review sales reflects the closure of 24 stores since the prior corresponding period, including 14 David Jones concessions. Overall, the LFL performance of continuing stores was positive.
- Black Pepper reflects the closure of 16 marginal or unprofitable stores since the prior corresponding period. Despite the continued aggressive discounting by competitors, Black Pepper also achieved positive LFL sales growth.
- The reduction in Black Pepper wholesale sales reflect the now discontinued independent wholesale business.
- In other Wholesale, Yarra Trail's sales were consistent with the prior year whilst JETS sales remain subdued as accessing greater local department store open to buy and achieving penetration in international markets remains a key challenge.

Earnings Reconciliation

A$ millions	H1 FY2020	H1 FY2019	Var
Underlying EBITDA[1]	**3.7**	**6.7**	**(45.3%)**
Depreciation & Amortisation (pre AASB 16)	(3.5)	(3.7)	
Underlying EBIT	**0.2**	**3.0**	**(94.2%)**
Finance Costs (pre AASB 16)	(0.4)	(0.4)	
Underlying NPBT	**(0.2)**	**2.6**	**n.m.**
Underlying Adjustments - Impact of AASB 16 *Leases* - Other Adjustments[2]	**(1.4)** (0.1) (1.3)	**(1.0)** - (1.0)	
NPBT – Reported	**(1.6)**	**1.6**	**n.m.**
Tax Benefit/(Expense)	0.6	(0.3)	
NPAT – Continuing Business	**(1.0)**	**1.3**	**n.m.**
NPAT – Discontinuing Business	(0.2)	(0.0)	
NPAT – Reported	**(1.2)**	**1.3**	**n.m.**

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 and has been adjusted to exclude the impact of adopting AASB 16 Leases. A reconciliation between Reported and Underlying EBITDA and NPAT is presented in *Appendix C.*

2 H1 FY2020 adjustments predominately reflect one-off corporate, board and management restructuring costs, the take-up of a 50% provision against amounts owing from Harris Scarfe and the cost value of stock pledged in response to the recent bushfires. The Group reserves the right to pursue the receivable owing from Harris Scarfe in full.

Balance Sheet

A$ millions	31 December 2019	30 June 2019
Cash and Cash Equivalents	4.8	0.3
Trade and Other Receivables	16.9	18.0
Inventory	30.9	36.4
Right of Use Assets	21.2	-
Property, Plant and Equipment	7.8	9.4
Deferred Tax Assets	16.0	8.2
Goodwill & Other Intangible Assets	83.7	83.7
Other Assets	4.5	6.4
Assets Classified as Held for Sale	1.1	1.1
Total Assets	**186.9**	**163.5**
Trade and Other Payables	19.7	20.7
Lease Liabilities	25.9	-
Deferred Tax Liabilities	13.9	8.1
Other Liabilities	9.7	13.8
Liabilities Classified as Held for Sale	0.8	0.8
Total Liabilities	**70.0**	**43.4**
Net Assets	**116.9**	**120.1**

- Cash surplus of $4.8m and no debt.
- Working capital improvement of $6.1m or 16.4% during the half as the Group continued its disciplined approach towards capital efficiency and cash maximisation
- PP&E decrease was consistent with the maturity profile of stores and tempered rate of new store roll-outs.
- The first-time adoption of AASB 16 *Leases* resulted in $21.2m of Right of Use Assets and $25.9m of Lease Liabilities being recognised on the balance sheet.
- White Runway remained classified as held for sale at 31 December 2019.

Cash Flow Statement

Statutory ($ millions)	H1 FY2020	H1 FY2019
Net profit after tax [(i)]	(1.2)	1.3
Non-cash Adjustments	10.7	3.6
Cash profit	9.5	4.9
Movement in Working Capital	6.1	(2.6)
Movement in Trade & Other Receivables	1.4	(4.0)
Movement in Inventories	5.7	0.4
Movement in Trade & Other Payables	(1.0)	1.0
Movement in provisions and prepayments	0.2	(0.7)
Net cash flow from operations	**15.8**	**1.6**
Capital Expenditure (net)	(1.5)	(1.2)
Deferred consideration	(0.7)	-
Net cash flow before financing activities and tax	**13.6**	**0.4**
Repayments of principal on lease liabilities	(7.9)	-
Income Tax Receipts/(Payments)	0.1	(0.6)
Net finance costs	(1.3)	(0.4)
Net Cash Flow	**4.5**	**(0.6)**

- Net cash flow from operations increased by $14.2m to the prior corresponding period and excluding the impact of AASB 16 *Leases*, this increase was $5.6m.
- The key driver behind the improvement in net cash flow from operations was strong working capital management which delivered a $6.1m improvement since 30 June 2019.
- Capital Expenditure in FY2020 represents targeted investment in new stores and refurbishments and the ongoing development of our online and loyalty infrastructure.
- Net finance costs includes $0.7m in interest on lease liabilities following the application AASB 16 *Leases*.

(i) NPAT includes aggregate impact of White Runway discontinued business. Refer to Appendix A.

Appendices

THE PAS GROUP LIMITED

Appendix A: Continuing to Total Business Reconciliation

The Group has announced its intention to dispose of the White Runway business, is actively marketing the business for sale and is currently engaged in discussions with potential buyers.

On this basis, the White Runway business continued to meet the criteria to be classified as a discontinued operation for the half year ended 31 December 2019. 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 31 December 2018 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 is provided below.

Reported ($'millions)	H1 FY2020 Revenue	H1 FY2020 EBITDA	H1 FY2020 EBIT	H1 FY2020 NPAT	H1 FY2019 Revenue	H1 FY2019 EBITDA	H1 FY2019 EBIT	H1 FY2019 NPAT
Continuing Business	**129.9**	**10.1**	**(0.5)**	**(1.0)**	**140.7**	**5.7**	**2.0**	**1.3**
Financial Impact: White Runway Discontinued Operation	1.9	(0.3)	(0.3)	(0.2)	2.3	(0.0)	(0.0)	(0.0)
Total Business	**131.8**	**9.8**	**(0.8)**	**(1.2)**	**143.0**	**5.7**	**2.0**	**1.3**

Appendix B : Impacts of New Lease Accounting Standard

Adoption of AASB 16 *Leases*

- The Group has mandatorily adopted the new lease accounting standard AASB 16 *Leases* from 1 July 2019.
- Whilst adopting the new standard has had no economic impact on the Group, no impact on how the business is run and no impact on actual cash flows for the Group, adoption has resulted in the majority of (but not all) premises costs being reclassified as depreciation and interest expenses.
- The Group adopted the Modified Retrospective Approach upon transition (comparative periods therefore were not restated).
- The opening balance sheet impact as at 1 July 2019 and the profit & loss impact of adopting the new standard for H1 FY2020 are detailed on the adjacent tables.
- Appendix C outlines a full reconciliation of Underlying to Reported EBITDA and NPAT incorporating the impacts of adopting AASB 16.
- The impact to statutory cashflow is an increase to net cashflows from operating activities of $7.8m and a corresponding decrease in net cashflows from financing activities. This change recognises the reclassification of a component of operating lease payments as principal repayments of the newly created lease liabilities.

Balance Sheet Impact as at 1 July 2019

Balance Sheet Item	Impact	Amount
Right of Use Asset	Increase	$26.4 million
Lease Liabilities	Increase	$31.7 million
Lease Incentives	Decrease	$4.4 million
Provisions	Increase	$0.6 million
Net Deferred Tax Asset	Increase	$0.5 million
Retained Earnings	Decrease	$1.1 million

Profit & Loss Impact for H1 FY2020

Profit and Loss Item	Impact	Amount
Property and Occupancy	Decrease	$7.7 million
Depreciation	Increase	$7.1 million
Interest	Increase	$0.7 million
Net profit after tax	Decrease	$0.1 million

Appendix C : Reconciliation of Underlying EBITDA and NPAT

Earnings Reconciliations

- As outlined previously, the first-time adoption of AASB 16 *Leases* has had a material impact on the way expenses related to leasing are measured and disclosed in profit and loss.
- The adjacent tables are presented to provide a meaningful comparison of the underlying financial results of the entity as the Directors believe that underlying EBITDA remains the most relevant measure in evaluating the Company's performance.

Reconciliation of Reported and Underlying EBIT and EBITDA	31 Dec 2019 $m	31 Dec 2018 $m
Reported EBITDA from continuing operations	**10.1**	**5.6**
Less: Reported depreciation and amortisation	10.6	3.6
Reported EBIT from continuing operations	**(0.5)**	**2.0**
Add back:		
Underlying adjustments before tax	1.3	1.0
Impact of adoption of AASB 16 *Leases* before tax	(0.6)	-
Underlying EBIT from continuing operations	**0.2**	**3.0**
Add: Reported depreciation and amortisation	10.6	3.6
Less: Depreciation of right-of-use assets under AASB 16	(7.1)	-
Underlying EBITDA from continuing operations	**3.7**	**6.7**

Reconciliation of Reported and Underlying NPAT	31 Dec 2019 $m	31 Dec 2018 $m
Reported NPAT attributable to members of the parent	**(1.2)**	**1.3**
Reported NPAT from discontinued operations	(0.2)	(0.0)
Reported NPAT from continuing operations	**(1.0)**	**1.3**
Add back:		
Underlying adjustments after tax	0.9	0.6
Impact of adoption of AASB 16 *Leases* after tax	0.1	-
Underlying NPAT from continuing operations	**(0.0)**	**1.9**

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