OROTONGROUP

Preliminary earnings update for the Full Year ended 25th July 2015

22nd May 2015

OrotonGroup Ltd (ORL) today announced:

In our HY15 results announcement on 19 March 2015, the company reported that "Despite uncertain consumer confidence and economic conditions, we expect modest EBIT growth in the second half of FY15 compared to H2-14, as we gain traction with our strategy to elevate the Oroton brand, including growing margin, with reduced discounting, a return to like for like sales growth and higher average selling prices."

The company also highlighted " In GAP and Brooks Brothers, we expect reduced losses compared to H2-14 as the brands benefit from improved margin and careful management of their cost base, including supply chain efficiencies.."

Now that the company has traded through the third quarter of FY15, including the key trading month of April which resulted in an unexpected reduced Group EBIT vs last year of just over $2m, we no longer expect EBIT growth in the second half of FY15 vs FY14.

CEO and MD Mark Newman commented "Our strategy to elevate our core Oroton brand, in particular to bring a halt to the heavy clearance activity and Friends & Family type sales that the brand had become reliant on, has cost more than expected, despite achieving our plans to grow margin and higher average selling prices in our full priced stores.

"We have made significant headway in re-establishing Oroton as a true Australian luxury brand, with a new, elevated store concept, limited edition products, focus on 'clienteling', an increase in average transaction value and endorsement as a luxury brand in the press.

"Importantly, however, we still have until the end of this year before we complete the cycle of the very heavy discounting from FY14 and move into a more comparable sales and earnings period.

"The third quarter and April in particular, reflects how much the heavy discounting from previous years has eroded the brands' prestige. The market has remained uncertain and the timing of Easter and ANZAC Day this year compared to last year also impacted sales.

"Both the Gap and Brooks Brothers brands achieved lower sales and margin than forecast and consequently contributed a higher loss than the prior corresponding period in the quarter.

"Accordingly, as we look forward to the last 3 months of the year, in light of the heavy discounting in the last quarter of FY14 and various one off items and although still difficult to predict at this early stage, we now expect underlying Group EBIT(1) will be approximately $4.5m compared to last year's figure of $13.3m. In making the comparison to FY14, it is important to note that over $3m of the decline is due to a significantly weaker Australian Dollar, despite our conservative hedging policy.

"Clearly this is a disappointing result for the Group, but we are confident that as we move into FY16, with the benefits of a less discounted promotion plan, continued roll out of the new store concept, new product ranges, a new point of sale system and enhanced CRM capabilities, we will begin to move back into a growth phase for the Oroton brand. In addition, we expect reduced losses in the Gap brand as we cycle the openings of the 3 new stores and improve supply chain efficiencies.

"We have also recently started discussions with Brooks Brothers USA on how best to manage the Brooks Brothers brand in Australia in the future.

"The FY15 earnings announcement is planned for 17th September at which time we will provide a more comprehensive review of the results. "

(1) Underlying group EBIT has been calculated as group EBIT adjusted for the significant onerous lease since the closure of the Hong Kong store

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