The PAS Group Limited – FY2016 Results Briefing

ABN 25 169 477 463

26 August 2016

Agenda – PAS Group FY2016 Results

1. Results Summary & Financials

2. Operational Highlights

3. Strategy and Outlook

4. FY2016 Results Analysis

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FY2016 Results Summary and Financials

FY2016 Results Summary

Financial Summary (i)

- NPAT up 14.3% to $11.3 million
- EBITDA up 16.6% to $23.9 million
- Sales up 19.9% to $269.4 million
  - Retail sales up 15.4%
  - Wholesale sales up 25.1%
  - Online sales up 149%
- Like for like store sales up 3.7%
- Designworks sales now more than $100 million
- Net cash on hand of $7.9 million, after $11.5 million of initial acquisition payments for White Runway and Jets
- Continuing business EPS up 15.3% to 8.3 cents per share
- Final dividend declared of 2.6 cents per share fully franked, funded from cash on hand at year end. Total dividends declared for the full year of 5.2 cents per share fully franked

Operational Summary

- New store roll-out on track; 31 new stores opened, 251 retail sites as at 30 June 2016 (excluding Metalicus)
- Online now 9% of retail sales; leader in industry
- Loyalty program (continuing membership) up 56.2% to 534,000 since 30 June 2015, an increase of 192,000
- Strong like for like performance in Review and Black Pepper with new stores trading well
- Strong growth in wholesale of 25% driven by Designworks, following the successful transition to a brand and licensed business
- Acquisition of White Runway and JETS Swimwear
- Divestment of Metalicus since year end

Continuing Business (i)	FY2016	FY2015	% Change
Sales	$269.4 million	$224.6 million	**+19.9%**
EBITDA	$23.9 million	$20.5 million	**+16.6%**
NPAT	$11.3 million	$9.9 million	**+14.3%**

(i) All statutory financials are presented on a "Continuing" business basis unless otherwise noted. See Continuing to "Reported" Income Statement reconciliation at Appendix A

Income Statement

Continuing Business ($ millions)(i)	FY2016	FY2015	Var
Revenue from Sales	**269.4**	**224.6**	**+19.9%**
Gross Profit	147.8	123.9	
Gross Profit Margin (%)	*54.9%*	*55.2%*	
Cost of Doing Business (CODB)	(123.9)	(103.5)	
CODB (%)	*46.0%*	*46.1%*	
EBITDA	**23.9**	**20.5**	**+16.6%**
Depreciation & Amortisation	(6.8)	(5.3)	
EBIT	**17.1**	**15.2**	**+13.0%**
Net Finance Costs	(0.9)	(0.9)	
PBT	**16.3**	**14.3**	**+13.2%**
Tax Expense	(4.9)	(4.4)	
NPAT – Continuing Business	**11.3**	**9.9**	**+14.3%**
NPAT – Discontinued Business	(0.7)	(41.8)	
NPAT – Reported	**10.6**	**(31.9)**	

- Increased revenue across all operating divisions
- Retail gross profit % up 40 basis points, wholesale gross profit % up 30 basis points. Slight overall year on year decline due to increased wholesale mix
- CODB % decrease on prior year of 10 basis points
- CODB increase predominantly due to:
  - variable property and employment costs associated with new stores in FY2016 and full year impact of stores rolled out in FY2015
  - annualisation of new infrastructure to support store roll out program
  - investment in digital marketing and fulfilment costs for online sales growth
  - increase in Designworks costs due to the shift to brand licenses and new sports infrastructure
- Depreciation increase largely due to new store roll outs and investment in online

(i) See Continuing Business to Reported Income Statement reconciliation at Appendix A

Balance Sheet

Statutory ($ millions)	30 June 2016	30 June 2015
Cash and Cash Equivalents	7.9	12.5
Trade and Other Receivables	21.2	20.7
Inventory	30.1	26.6
Property, Plant and Equipment	13.7	11.0
Net Deferred Tax Assets	7.6	9.1
Goodwill & Other Intangible Assets	79.1	65.3
Net Assets Held for Sale	3.4	-
Other Assets	5.6	8.6
Total Assets	**168.6**	**153.8**
Trade and Other Payables	18.3	16.3
Other Liabilities	24.5	12.2
Total Liabilities	**42.8**	**28.5**
Net Assets	**125.8**	**125.3**

- No debt
- Net cash of $7.9 million after funding $11.5 million in acquisition payments
- Inventory increase due to the acquisition of new businesses, increased store numbers and Designworks sports and licensed business
- Property, plant and equipment increase due to the acquisition of new businesses and new store and refurbishment investment
- Increase in goodwill and other intangible assets reflect the acquisition of the new businesses including the initial and contingent future payments
- Net Assets Held for Sale represents the net value of assets and liabilities relating to the Metalicus discontinued business
- Other liabilities increase due to future payments for new acquisitions, employee provisions, lease incentives and movement in foreign exchange hedges

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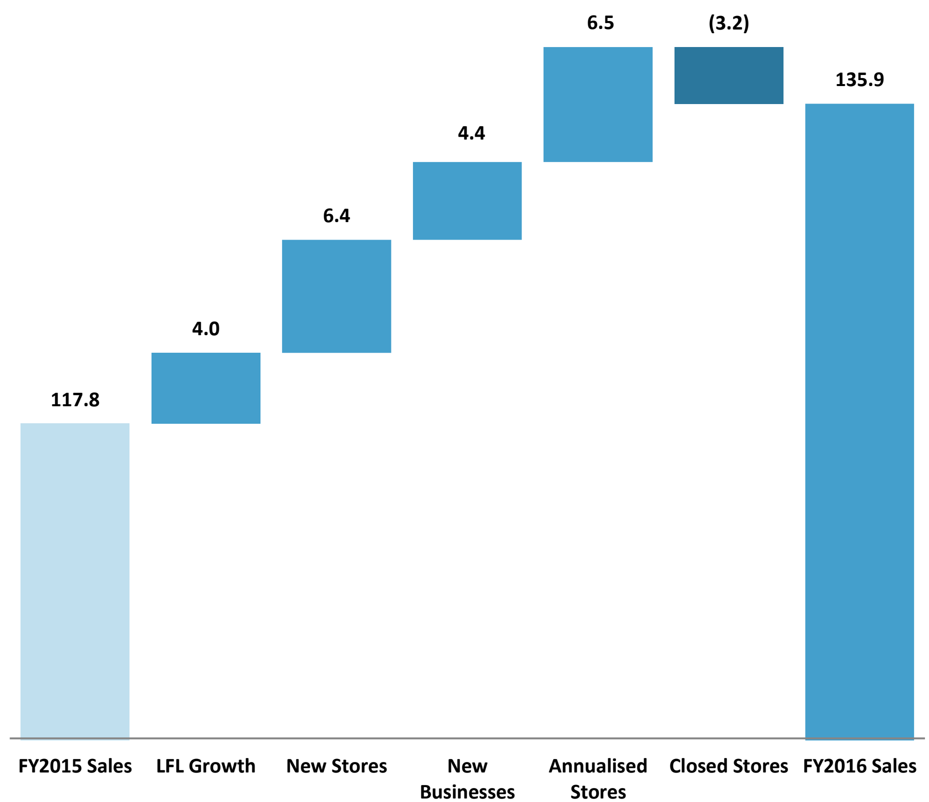
FY2016 Operational Highlights

Retail Sales

- Retail sales grew 15.4% to $135.9m
- Growth due to:
  - like for like retail sales up 3.7% with strong positive comp store sales in Review and Black Pepper
  - online sales grew 149% in addition to the 58% growth achieved in FY2015
  - the impact of the 32 new stores opened in FY2016
  - the annualisation impact of 40 new stores opened in FY2015
  - Sales from JETS and White Runway of $4.4m
- Growing customer loyalty programs, loyalty sales represent c.72% of total retail sales

FY2015 to FY2016 Retail Sales Bridge ($ million)



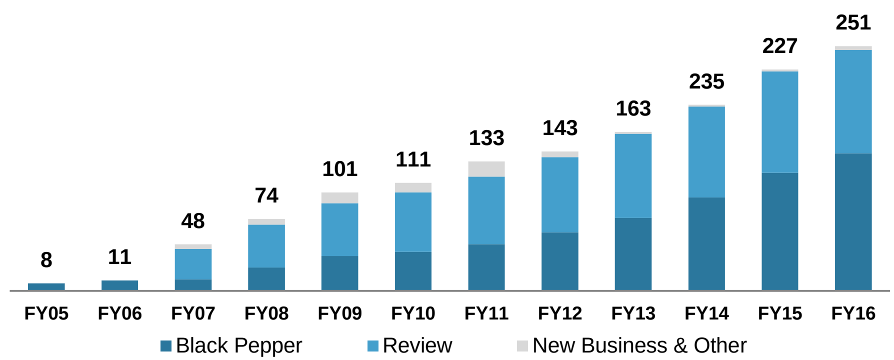
Store Portfolio

- 31 new retail sites opened in FY2016:
  - Black Pepper: 21 stores
  - Review: 7 stores, 1 concession
  - Jets: 2 stores
- 34 store upgrades completed
- New Zealand expansion:
  - Increased presence of Black Pepper in New Zealand to 17 stores with a further 10 new stores opened during the year
  - Launch of first Review store in New Zealand
- Opening of the first two JETS retail stores in Queensland
- Active renewal of our store portfolio and closing underperforming stores
- Selected store relocations
- 11 new stores planned for FY2017

Total Retail Sites by Brand

	FY2015	Opened	Closed	FY2016
Black Pepper	121	21	(1)	141
Review	104	8	(6)	106
New Businesses & Other	2	2	-	4
Total Retail Sites	**227**	**31**	**(7)**	**251**

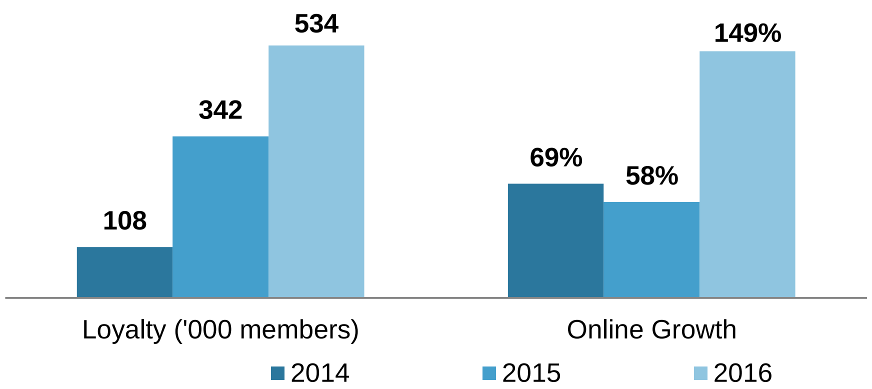
Store Roll-Out Trajectory (excl. Metalicus)



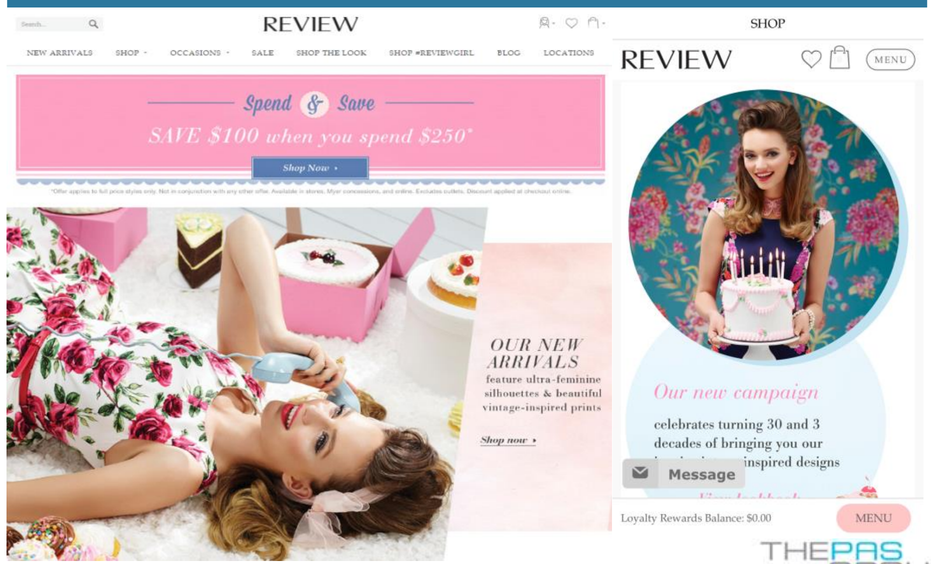
Online & Customer Loyalty

- The PAS Group continues to build a market leading position in apparel digital retail & loyalty
- Online sales were up 149% in addition to the 58% growth achieved in FY2105 and now represents 9.3% of retail sales in Review and Black Pepper, up from 4.4% in FY2015
- Loyalty membership grew by a further 192,000 members in FY2016 to 534,000 members. Loyalty program sales now represent c.72% of sales
- Our social media following has grown significantly now with 211,000 Instagram and 269,000 Facebook followers across our brands
- “Store-to-Door” successfully rolled out to all Review, and selected Black Pepper stores providing online customers direct access to stock across all stores
- A new Review website was launched in FY2016 with improved site navigation, additional payment options and a dedicated mobile site, our mobile loyalty app launched with 15,000 active users to date
- The Black Pepper online store is now the top performing Black Pepper store
- Online and loyalty continues to drive sales growth, consumer insights, consumer communication and traffic to retail stores

Loyalty and Online Growth (FY2014 – FY2016)



New Review Online Website and Mobile App



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Wholesale, Design & Distribution

- Wholesale sales of $133.5m, up 25%
- Our strategy of replacing Target private label business with licensed brands has been through a successful transition

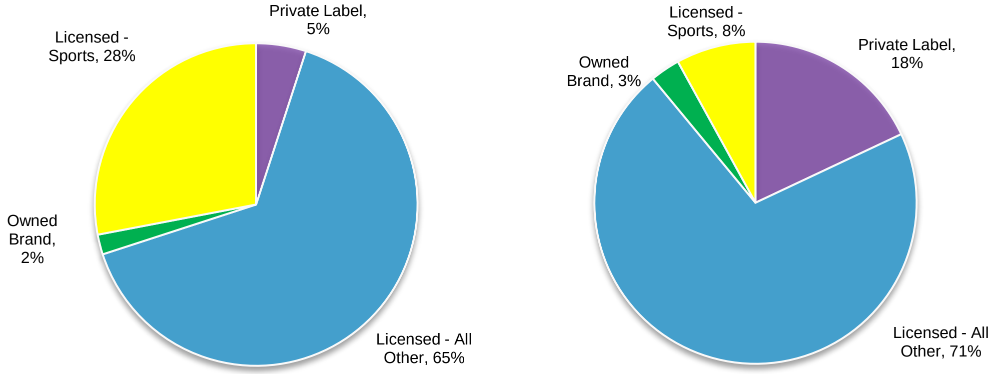
DESIGNWORKS

- FY2016 sales up 38% to $101.2 million
- Strong growth in FY2016 driven by growth in Everlast apparel, new footwear ranges and sports equipment
- Sales from Toys“R”Us Japan are ahead of expectations
- There continues to be a strong pipeline of license opportunities with licensors attracted by our design capability, quality and supply chain speed to market
- Business well positioned for further growth in FY2017

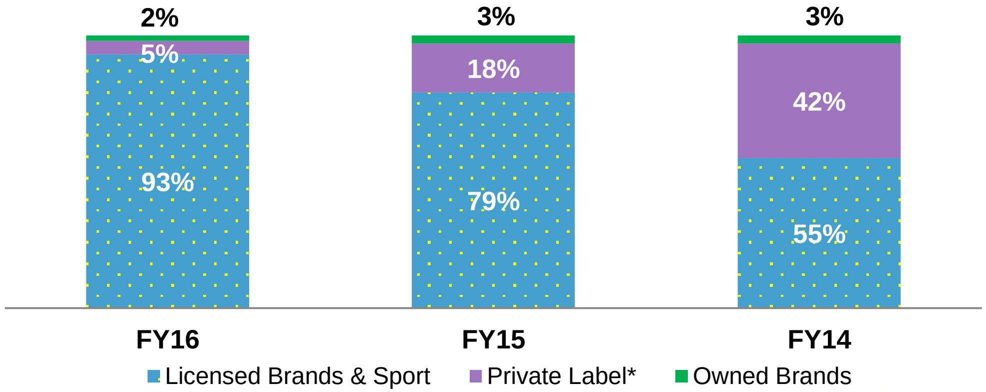
OTHER WHOLESALE

- Strong performance in Yarra Trail wholesale continues
- Planned shift from wholesale to retail in Black Pepper was in line with expectations

Designworks % Product Mix – FY2016 v FY2015



Designworks Product Mix Predominantly Licensed Brands & Sport



** Private Label is branded product owned by a retailer*

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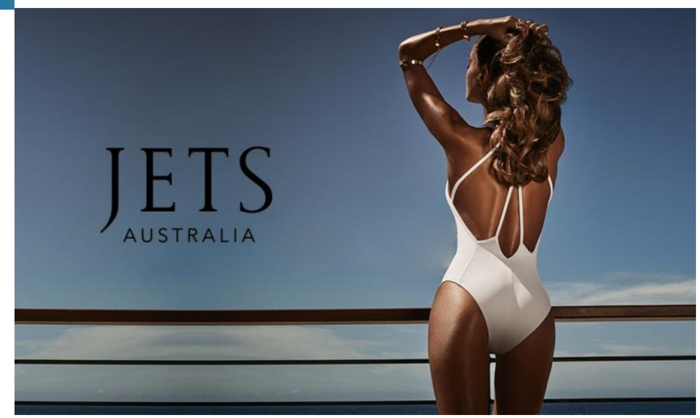
New Businesses – JETS and White Runway

- Growth plans for both new businesses are on track with significant investment in people and systems
- Appointment of Matt Blashki to the role of Group General Manager – new business (former GM of MIMCO)

JETS Swimwear

- Australia's leading premium swimwear brand acquired in November 2015
- 2 new stores opened (Noosa, Chermside)
- Online store enhancements have been implemented with online sales up 31% on prior year for the ownership period
- Investment in people including a new Head of Sales and Marketing, Head of Production and Head of Design
- Commenced offshore production process



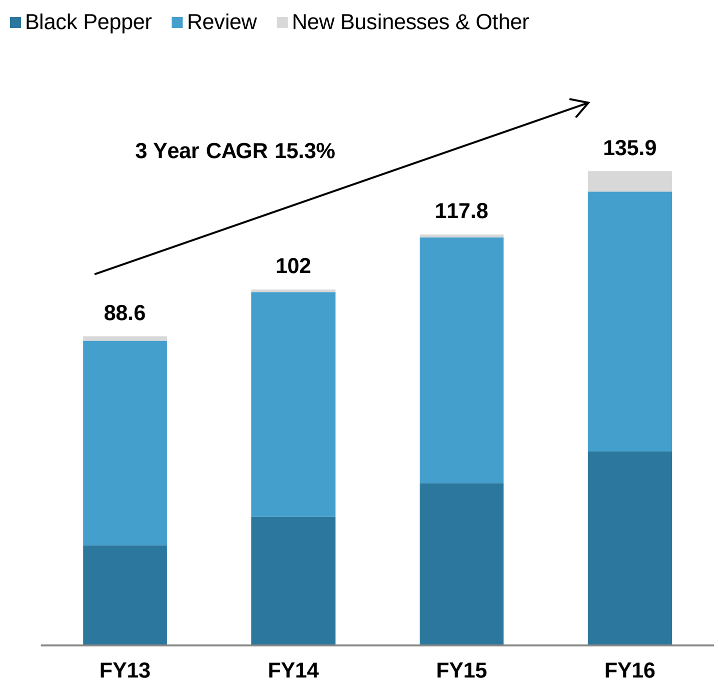
White Runway

- Online occasionwear business acquired in July 2015
- Strong sales growth of 43.3% over prior year
- New showrooms opened in Sydney, Brisbane, Cape Town (South Africa), New York (USA) pop-up store
- Integration into PAS operating systems near completion
- Investment in the operating model and people to create the base for growth

Future Growth Plan & Outlook

Future Growth Plan - Retail

PAS Group – Retail Segment Sales Growth FY2013-FY2016



	FY13	FY14	FY15	FY16
Online Sales	2.1%	3.1%	4.4%	9.3%
Retail Sites	163	191	227	253
Segment EBITDA ($m)	15.3	16.8	18.8	20.6

Retail Growth Plan

New stores & Upgraded Store Concepts	• Opening 11 new stores in FY17 including additional larger format Black Pepper stores which will showcase a range of group owned brands for the over 45 demographic • Continued targeted investment in updating store concepts in Review and Black Pepper • Upgraded fitouts including a new concept launched in Review Myer concessions
Online and Loyalty	• Launch of Myer online Dropship for Review, allowing customers to shop the full range through the Myer online store • New websites for Black Pepper, White Runway and JETS including improved user experience and dedicated mobile compatibility • A major upgrade to the loyalty platform to facilitate the next phase of growth and to allow further targeting to individual customer segments with relevant offers. • Increased investment in digital marketing across all brands
New Businesses: JETS & White Runway	• White Runway growth driven by the launch of a new integrated website, increased investment in digital marketing and margin expansion through the growth in own brands. • JETS retail growth through new stores, introduction of a new loyalty program and online sales in Australia and commencement of international growth plans • Continued evaluation of new acquisition opportunities

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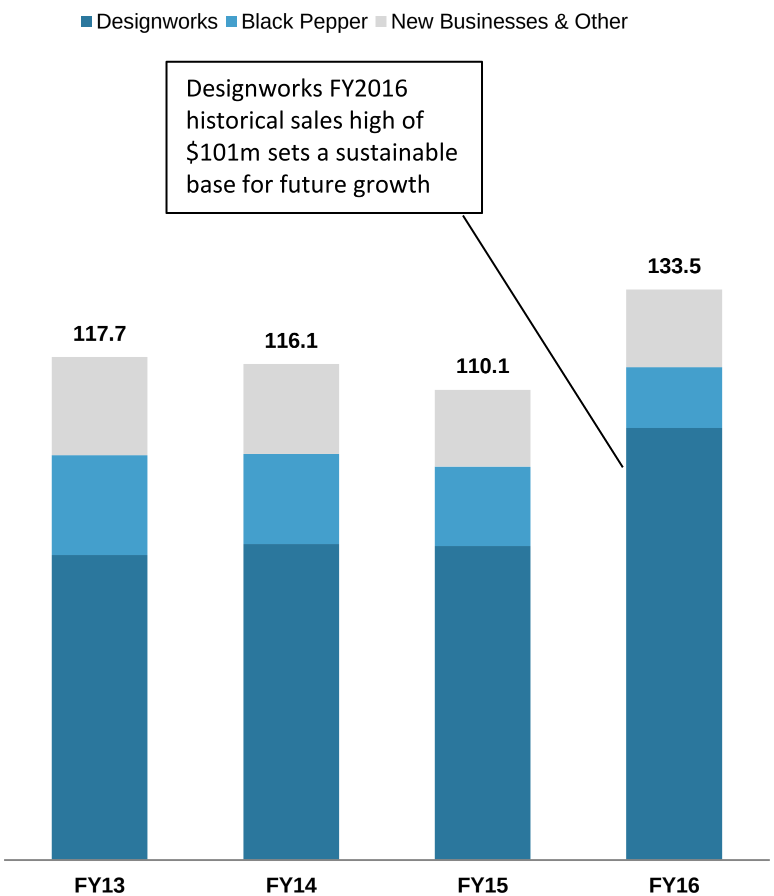
Future Growth Plan - Wholesale

PAS Group – Wholesales Segment Sales ($m) FY2013-FY2016



Wholesale Growth Plan

Designworks	• Continue to leverage alliance with UK based global brand owner IBML • Continued growth in the Designworks sports division including the Slazenger and Dunlop brands to complement Everlast • International sales growth through Toys”R’Us Japan • A New distributor relationship with the Launch in Q4 of the Kardashian Kids range through a US distributor into international department stores and Toys”R”Us in the USA • Strong pipeline of new Brand License and customer opportunities • Consolidate position as the Brand and License partner of choice in the Australian market
New Businesses:	• Commencement of offshore production for JETS • Implement international growth sales infrastructure • International expansion of JETS through wholesale and direct online sales • Continued evaluation of new acquisition and licensing opportunities

Conclusion and Outlook

- **A strong performance in FY2016 driven by**:
  - positive like for like retail sales growth;
  - strong online growth;
  - new stores and annualisation of stores opened last year;
  - the acquisitions of JETS and White Runway; and
  - strong growth in Designworks driven by the Licensed Brands and Sport Division
- **The divestment of Metalicus will enable increased focus** on the growth brands in the group and will free up around $3m in working capital.
- **Gross profit and costs well managed**
- **Strong cash generation with no debt**
- **Growth strategy execution according to plan**:
  - Store roll-out and targeted refurbishment continues;
  - Online and loyalty strategy driving revenue online and in-store;
  - Designworks growth from the new Sport Division including new categories in footwear and equipment; and
  - Acquisition of White Runway and JETS both with clear growth strategies
- **Continuing to explore potential acquisitions & licensing opportunities**
- Growth in FY2017 will be driven by like for like sales and Online, new stores and the annualisation of stores opened last year, moderate growth in Designworks from licensed brands and the Sport Division as well as the contribution from the new businesses
- The retail environment for the first 8 weeks of H1 FY2017 has been consistent with expectations with positive Like for Like retail growth continuing.

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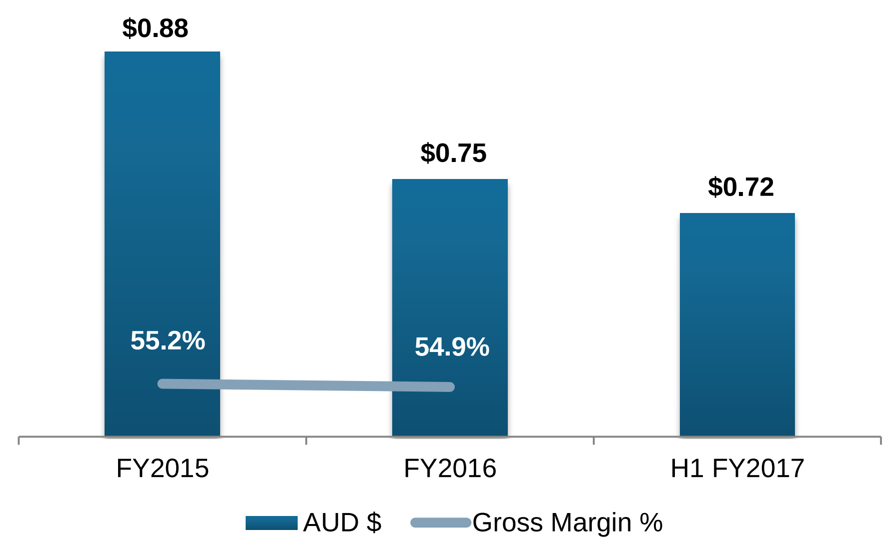
FY2016 Results Analysis

Gross Margin and Exchange Rates

- Gross margin has continued to be well managed through the currency cycle
- Retail gross profit % up 40 basis points, wholesale gross profit % up 20 basis points. Slight overall year on year decline due to increased wholesale mix
- Forward US dollar currency requirements for Review and Breakaway for the majority covered up to Q3 FY2017 at levels above c. $0.72
- Designworks currency commitments in place based on firm orders through to end of February 2017.   Future currency requirements and wholesale pricing are determined when firm orders are received
- Benefit from January 2017 of the 3.3% duty reduction in clothing imports from China
- Ongoing price negotiations with vendors underway for cost reductions on Autumn/Winter 2017 ranges.

Exchange rate and margin



Sales by Brand and Segment

Actual Underlying ($ millions)	FY2016	FY2015	Var
Retail			
Review	74.6	70.4	**+6.0%**
Black Pepper	55.6	46.5	**+19.6%**
New Businesses and Other	7.7	0.9	
Total Retail Sales	**135.9**	**117.8**	**+15.4%**
Wholesale			
Designworks	101.2	73.5	**+37.7%**
Black Pepper	14.1	18.5	**-23.8%**
New Businesses and Other	18.2	14.7	**+23.8%**
Wholesale Sales	**133.5**	**106.7**	**+25.1%**
Total Sales	**269.4**	**224.5**	**+19.9%**
Retail Sales % of Total Sales	*50.4%*	*52.5%*	
Wholesale Sales % of Total Sales	*49.6%*	*47.5%*	
Retail Sales Growth (%)	*15.4%*	*15.8%*	
LFL Sales Growth (%)	*3.7%*	*(0.3%)*	
Wholesale Sales Growth (%)	*25.1%*	*(4.4%)*	

Earnings by Segment

Actual Underlying ($ millions)	FY2016	FY2015	Var
EBITDA			
Retail	20.7	18.8	**+9.9%**
Margin (%)	*15.2%*	*16.0%*	
Wholesale	11.9	9.0	**+31.9%**
Margin (%)	*8.9%*	*8.4%*	
Unallocated / Corporate	(8.7)	(7.3)	**-19.1%**
Total EBITDA	**23.9**	**20.5**	**16.6%**
Margin (%)	*8.9%*	*9.1%*	
EBIT			
Retail	16.3	15.1	**+8.2%**
Margin (%)	*12.0%*	*12.8%*	
Wholesale	11.3	8.9	**+27.7%**
Margin (%)	*8.5%*	*8.3%*	
Unallocated / Corporate	(10.5)	(8.8)	
Total EBIT	**17.1**	**15.2**	**+13.0%**
Margin (%)	*6.4%*	*6.8%*	

- Retail EBITDA above prior year due to strong performance in underlying business (like for like sales growth of 3.7%) as well as EBITDA accretive acquisitions, 32 new store openings and the annualisation of 40 stores opened in FY2015
- Wholesale EBITDA well above prior year due to the recovery in the Designworks performance, particularly driven by the Sports category and licenced business
- Unallocated and Corporate underlying EBITDA change primarily due to support office resourcing, employee provisions, acquisition costs and take over defense costs

Cash Flow Statement

Statutory ($ millions)	FY2016	FY2015
EBITDA	22.1 [(i)]	20.2
Movement in Working Capital	(2.2)	4.2
Movement in Trade & Other Receivables	1.6	*4.1*
Movement in Inventories	(5.2)	*(3.9)*
Movement in Trade & Other Payables	1.4	*4.0*
Other Operating Cash Flows	0.6	(0.3)
Net cash flow from operating activities	**20.5**	**24.1**
Cash Flow Conversion (%) [(ii)]	*92.8%*	*119.3%*
Capital Expenditure	(6.2)	(6.3)
Net cash flow before financing activities and tax	**14.3**	**17.8**
Income Tax Payments	1.0	(2.4)
Net Interest	(0.9)	(0.8)
Payment for Businesses	(11.5)	-
Dividends Paid	(7.8)	(2.6)
Net Cash Flow	**(4.9)**	**12.0**

(i) FY2016 EBITDA includes aggregate impact of Metalicus discontinued business. Refer to Appendix A

(ii) Cash flow conversion defined as Net cash flow from operating activities, divided by EBITDA

- Positive net cash flow and high cash conversion resulting from:
  - Improved trading result
  - lower trade receivables due to wholesale sales reduction and timing of payments
  - effective cash flow management
- Capital Expenditure in FY2016 reflects the continual store roll out program, targeted investment in refurbishments and ongoing development of our online and loyalty infrastructure offset by a one-off incentive received as an outcome of the support office lease renewal
- Payments for Businesses reflect the net cash outflows for the initial payments for White Runway and JETS
- Dividends paid reflect the payment of the Final Dividend for FY2015

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Appendices

Appendix A: Continuing to Reported Reconciliation

On 28 July 2016 The PAS Group Ltd ('PAS') announced that it had signed an agreement for the sale of its Metalicus business to the General Pants Group. Subject to the satisfaction of certain conditions precedent, the transaction is expected to complete at the end of September 2016.

On this basis the Metalicus business has met the criteria to be classified as a discontinued operation. As a result, the assets and liabilities incorporated in the sale have been presented separately in the statement of financial position as assets held for sale and the results of the discontinued operation are presented separately in the consolidated statement of profit and loss and other comprehensive income 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 incorporating the Metalicus Discontinued Operation ('Reported') is provided below.

($'millions)	FY2016 Revenue	FY2016 EBITDA	FY2016 EBIT	FY2016 NPAT	FY2015 Revenue	FY2015 EBITDA	FY2015 EBIT	FY2015 NPAT
Continuing Business	**269.4**	**23.9**	**17.1**	**11.3**	**224.6**	**20.5**	**15.2**	**9.9**
Financial impact of Metalicus discontinued business	25.4	(1.8)	(2.2)	(0.8)	28.7	(41.0)(i)	(42.3)	(41.8)
Reported	**294.8**	**22.1**	**14.9**	**10.6**	**253.2**	**(20.5)**	**(27.1)**	**(31.9)**

(i) Included in the FY2015 statutory results was a non-cash impairment charge of $40.7 million.

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