22 August 2018

THE PAS GROUP LIMITED FY2018 RESULT

The PAS Group Limited ("PAS", "The Group" or "The Company") today reported sales for the full year ended 30 June 2018 of $256.4 million and EBITDA of $11.2 million, within the range of $10.0 million - $13.0 million provided in the business update on the 30 April 2018.

Retail sales reduced by 1.3% to $139.1 million driven by a decline in like-for-like retail sales. As previously reported, trading conditions in the current retail environment have continued to be challenging. Exacerbating the already challenging conditions, the late onset of winter resulted in unusually high levels of promotional activity in the last quarter and lower concession sales continued to negatively impact the result.

Online sales momentum continued with growth of 17.2% as the Group's portfolio of brands expanded their presence on both company owned and third-party platforms.

Wholesale sales reduced by 2.8% to $117.3 million driven by delayed Designworks orders from some key department store customers, discontinuation of $5.1m of low margin sales, a reduction in Independent Wholesale sales and the continued shift from Wholesale to Retail in Black Pepper. Sales from the previously reported $35 - $40 million of annualised new Designworks contracts are on track to commence in FY2019. In addition, infrastructure to support the international expansion of JETS is now in place and is expected to contribute to earnings growth from FY2019 onwards.

EBITDA for the year of $11.2 million included $1.6m of underlying investment in infrastructure to support recent contract wins, the international expansion of both the Swimwear division and Review and the company's continued growth in online. The net impact of non-trading, non-recurring items within EBITDA was not material.

The Net Loss after Tax from the continuing business was $2.9 million, reflecting non-cash impairment charges of $5.5 million recorded against the tangible and intangible assets of the White Runway business ($4.6 million) and other historical long-term character licences which will not be renewed ($0.9 million).

A summary of the Company's financial performance for the year ended 30 June 2018 is shown below:

$ million	FY2018	FY2017
Revenue from Sales	$ 256.4	$ 261.7
EBITDA	$ 11.2	$ 18.8
NPAT – Continuing	$ (2.9)	$ 8.3
NPAT – Total Business[1]	**$ (2.9)**	**$ 7.7**

Eric Morris, Chief Executive Officer commented: "Whilst traditional retail trading conditions remained challenging, FY2018 was a year of consolidation in which we invested in key areas of the business to support sustainable earnings growth. The upfront investment in Designworks was essential to enable sales from new business won during the year and to establish the infrastructure which will support JETS international expansion, both of which are expected to deliver earnings growth from FY2019 onwards. Significant progress was also made in our digital business in both our own websites and third-party market places."

OPERATIONAL HIGHLIGHTS

Retail Segment

- Continued growth in online, up 17.2% and which now represents 15.2% of retail sales. Online growth was driven by brand expansion onto a number of new online marketplaces including David Jones dropship, Qantas online, Amazon, The Iconic, as well as Tmall Global (Alibaba) and VIP.com in China. A new market leading online platform was launched for Review and new websites were also launched for both Everlast and the new B.O.D by Rachael Finch Activewear range. The 17.2% increase in online is in addition to the 41% growth achieved in FY2017;
- Loyalty membership grew to 943,000 members, an increase of 189,000 members since 30 June 2017. Loyalty sales now represent c.76% of total retail sales. A new technology was implemented which provides detailed customer analytics enabling tailored communication to our customer base;
- Whilst we have tempered our new store roll-out program in line with our strategy, we have continued to open new stores in select locations taking the total number of bricks and mortar stores to 256. During the year, 16 underperforming stores were closed;
- The refurbishment of 19 stores was completed, including the launch of a new store concept for Review in Melbourne Central, Woden and Booragoon; and

[1] The financials in this release are reported on a continuing business basis in accordance with the accounting standards. "Total Business" for FY2017 includes the three month ownership period of the formerly owned Metalicus business which met the criteria to be classified as a discontinued operation for the year ended 30 June 2017.

- Stock was well managed across the retail business finishing the year with clean inventory levels, positioning the business well for the early launch of new season styles.

Wholesale Segment

- Whilst Designworks experienced continued growth across both the Apparel and Sports divisions, significant investment took place to support the $35 - $40 million of new contracts secured. The new business initiatives are as follows:
  - The Coles Mix program
  - A full year of our new Lonsdale brand which was launched in the second half of FY2018
  - The launch of our own Suburban brand in Target
  - The launch of Russell Athletic in H2 FY2019
  - The expansion of athletic footwear as well as the launch of Women's fashion footwear
- JETS international wholesale experienced encouraging growth, which facilitated an investment in research and infrastructure to support its international expansion; and
- In other Wholesale, Yarra Trail and Marco Polo experienced growth and Black Pepper was in line with expectations with the continued shift from Wholesale to Retail.

OUTLOOK AND GROWTH STRATEGY

The Group has a range of new initiatives planned for FY2019 and beyond. Consistent with tempered reductions in new store openings in FY2018 and the success of our online business, going forward we will be opening fewer new standalone stores while continuing to invest in digital, focusing on website and mobile platform upgrades as well as new marketplace opportunities.

The Group is a market leader in digital retailing and currently operates across a large combination of digital marketplaces, with a number of new international marketplaces being explored for FY2019. Growth in online remains a strategic imperative and the trend of investment in this area is planned to continue.

The Group has invested in infrastructure to support the Swimwear division's expansion into both wholesale and online in international markets with a particular focus on the US, European Union and the UK. To support this international growth, we will be operating through a third-party distribution centre in Hong Kong which is due to go live in October 2018.

From a category perspective, the introduction of a new range of JETS Resortwear has been well received and will complement the current swimwear offering in both local and international markets.

As communicated to the market previously, on 9 August 2017 the Group entered an agreement to acquire the Bondi Bather Swimwear brand as a strategic addition to the JETS swimwear division. The brand has now been successfully integrated and is utilising the JETS infrastructure both locally and internationally, providing complementary access to a younger customer segment within swimwear.

From a wholesale standpoint, FY2018 was a pivotal year for our Designworks business which delivered best in class and category leading apparel, footwear and sports equipment to key customers. Having secured c.$35 - $40 million in new business for delivery in FY2019 and beyond, Designworks in a strong position moving forward.

The Group made the strategic decision to exit the Black Pepper Independent Wholesale market due to eroding independent account numbers and profitability. By discontinuing wholesale sales to Independents, the profitability of Black Pepper is expected to increase through reductions to its cost structure and future growth potential in retail. The impact of this strategic change (which will occur in H2 FY2019) is expected to be EBITDA neutral in FY2019 and EBITDA accretive in future years.

Eric Morris, Chief Executive Officer concluded: “Whilst the retail environment remains tough, sales for the first seven weeks of the financial year are in line with plan. We have a strong balance sheet, are long term debt free and are well placed to deliver on the strategic imperatives already underway. Following a year of consolidation and investment, we believe these initiatives will underpin our earnings growth in FY2019 and beyond.”

The Group continues to evaluate potential strategic opportunities whilst maintaining a tight focus on cost control.

DIVIDEND

In light of the free cash flow generated during the second half being reinvested in the Group’s strategic growth initiatives, a final dividend has not been declared. The fully franked interim dividend of 1.5 cents per share was paid on 6 April 2018. The Group holds $41 million in franking credits.

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