



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

MARKET ANNOUNCEMENT

2018 Annual General Meeting

Chairman and CEO Addresses to Shareholders

CHAIRMAN'S ADDRESS

Intro

At this same meeting one year ago, I spoke of the macro-economic difficulties facing Australian retail. Throughout FY2018 the pressures on discretionary spending continued and competition for the consumer wallet intensified resulting in retailers across the sector continuing to discount more heavily for lengthier periods in an effort to remain competitive and manage stock positions.

Whilst traditional retail trading conditions remained challenging, this last fiscal year was a period of consolidation in which we invested in key areas of the business to support sustainable earnings growth. These initiatives required varying degrees of expenditure ahead of the curve and you will hear more about FY2018 from Eric in a moment.

From your board's perspective, we have made progress against strategic imperatives, but still have much to do in what is a challenging environment. We appreciate the effort of the entire organization and look forward to continuing to focus on those matters most critical to our long-term success.

Administrative

Leadership Change

Managing Director and Chief Executive Officer, Eric Morris has made the decision to retire during FY2019 after 13 years at the helm. Eric will be succeeded by Paul Burdekin, who commences today in the role of Chief Commercial Officer.

Eric will transition into a non-executive director role post the transition to Paul.

It has truly been a pleasure to have worked with Eric. The Board appreciates Eric's ongoing commitment to help ensure a smooth leadership transition.

Paul will transition into the role of Managing Director and Chief Executive Officer by this coming July.

Paul was most recently with Billabong International, an Australian publicly listed global apparel and accessory wholesaler and retailer, where he served as General Manager Asia Pacific, and previously was GM of Emerging Brands (including Tigerlily, Nixon, RVCA and Vonzipper).

Paul is a dynamic global business leader with a clear 'consumer-first' orientation, and an ability to drive strong and successful organizational culture. Paul is passionate about growing and developing brands across both wholesale and direct-to-consumer channels, and has an impressive 20-year record of delivering terrific outcomes for all stakeholders.

The Board welcomes Paul and looks forward to his future appointment into the Managing Director and Chief Executive Officer role. Paul has a track record of success as a retail leader across multiple markets and formats, a demonstrated ability to combine strategic thinking with a hands-on implementation approach to drive successful business transformations. Paul will provide a fresh perspective to drive the next evolution of the Company.

Board Enhancement

The Board continues to evaluate, with input from management and shareholders, the potential of adding an additional independent director, with experience and skills that might best enhance the company's ability to create and unlock shareholder value.

Steps to Enhance Shareholder Value

The macro-economic pressures from 2018 have continued and in some ways have intensified in the first half of FY2019. As you may recall, and will hear further about from Eric in a moment, in FY2018 the Company invested in key areas of the business to support sustainable earnings growth.

Whilst progress has been made, the company is taking further actions to enhance shareholder value, including:

- **Strategic Review**: We previously highlighted the engagement of Houlihan Lokey to assist in our efforts in exploring a range of strategic opportunities to help strengthen the business and position it for future growth, this engagement is ongoing.
- **Cost Save Opportunities**: Drive efficiencies and cost save opportunities across the company, including from our supply chain for which the annual total spend approximates \$130 million.
- **Review**: Position Review to resume profitable growth, domestically and overseas. Heighten focus with key concession partners to address the ongoing decline in our Review concession business.
- **Black Pepper**: Focus on the successful execution of the Black Pepper strategy to exit the independent wholesale channel and focus on retail.
- **Designworks**: Ensure people and processes are in place to deliver upon its new brands and contract wins. Sustain continued strong growth in the future. Explore pathways to leverage its strategic value to brands.
- **Swim**: Broaden positioning and expand distribution overseas.
- **Digital**: Cultivate and accelerate digital transformation across the portfolio through the company's own websites as well as third party sites.

Closing

In closing, your board and management remain fully engaged in helping to create and unlock value for all stakeholders. Despite the difficult macro environment, the team is focussed on achieving longer term strategic and operating priorities for each of our online, retail, and wholesale channels, and within our core and new growth markets. The industry broadly is in the midst of a significant transformation, requiring that we further enhance our agility, customer focus, and culture of innovation.

Over the coming months Eric and Paul will work together to accelerate and solidify progress on the Company's key initiatives, while at the same time identifying and prioritizing future opportunities to enhance shareholder value.

This past year, the Company paid a fully-franked interim dividend of 1.5 cents per share, finished with no long-term debt, and retained capacity to continue investing in organic and acquisition-led growth for the long-term.

On behalf of the Board, I would like to sincerely thank management and The PAS Group's team for their hard work throughout the year.

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.

Intro

I have been speaking with the board and our Chairman for some time now about a succession plan. Next year marks 14 years for me at the helm of PAS.

It has been a privilege to have built and helped steward PAS from its single brand roots over 13 years ago through the integration of nine acquisitions, the company's 2014 public listing, and meaningful investment in growth across both our retail footprint as well as in new brands and digital transformation. This is the right time for me to move on, and welcome Paul as my future successor.

Paul will start right away with responsibility for selected divisions and will transition into my CEO role throughout the balance of this fiscal year. It has been an incredible experience for me to have served the Company and to have worked with a great group of people including our various business partners. Please join me in welcoming Paul to the PAS team. I look forward to working with Paul in his role as Chief Commercial Officer, and to assisting him to successfully and smoothly transition into the leadership role for PAS Group.

I look forward to my ongoing involvement as a non-executive director, beyond my time as your CEO. I care deeply about the business and about the people that make it an extraordinary place to work. Thank you.

I welcome Paul to say a few words.

CCO'S ADDRESS

Thank you Eric and good morning to everyone here.

Today is my first day at PAS. However, I have spent several months talking with Adam, Eric and the board about the business, and in particular the brands and the people that make PAS what it is. I am excited to be here and cannot wait to get started.

I would firstly like to acknowledge and thank Eric and the board. I am humbled to be given an opportunity to work with and ultimately succeed someone of Eric's experience and stature. In addition, I am thrilled Eric will continue his involvement with the group in a non-executive director role.

My background is in the branded apparel and accessory space. I have been fortunate to work with some terrific brands - growing, developing, turning them around and nurturing them over many years. It's a space I love and have been successful in – it is fast paced, exciting, challenging, and increasingly dynamic and most significantly it is a space that is reliant upon the connection that is built with the consumer.

Looking outward, we see a world that is ever more digitally connected. Fashion cycles are fast, trends are moving faster, and distribution channels are shifting as online continues to expand.

All of this is all being driven by the consumer.

Developing, building and harnessing that consumer connection across all channels and mediums is something I am passionate about, and something I am excited to work with the PAS team on.

This is a business with great brands and enormous potential. I am excited by the challenge to work with Eric and with the broader PAS team to deepen and broaden the company's initiatives to drive shareholder value.

I'd like to finish by acknowledging the people across the PAS business. I look forward to working with all of you, listening to you and learning from you. Your dedication and commitment to the brands, our customers, and the business is clearly evident, and I can't wait to be part of that with you.

Thank you.

RETURN TO MANAGING DIRECTOR AND CEO'S ADDRESS

Thanks Paul.

I would now like to talk about FY2018.

The headwinds in the Australian Retail environment continued into FY2018 with the industry experiencing both the cyclical and structural issues that we are all familiar with.

Volatility in the housing market, increased levels of household debt and unabated increases in the cost of necessities such as utility and petrol prices resulted in a shrinking wallet size. Government instability added to the already low levels of consumer confidence which continued to fall.

The industry as a whole suffered from declining foot traffic coupled with unusually high levels of promotional activity which was exacerbated by the late onset of winter.

FY2018 Results

Total Sales were \$256.4m and EBITDA \$11.2m, which was well within the range provided to the market in the business update on 30 April 2018. The EBITDA result included \$1.6m of investment ahead of the curve for new business.

Retail sales reduced by 1.3% to \$139.1m; this result was heavily driven by Department Store Concession performance.

Wholesale sales reduced by 2.8% to \$117.3m; this was driven by delayed Designworks orders by key Department store customers and the proactive discontinuation of \$5.1m of low margin sales.

Online revenue grew by 17.2% compounding the 41% growth achieved in FY2017. Online sales now represent 15.2% of total retail sales.

The group remains in a strong financial position with no long-term debt.

FY2018 was a year in which we invested in key areas of the business to support sustainable future earnings growth. These areas included:

- Investing upfront within our Designworks business to support the \$35m - \$40m of new brands and contract wins as well as the expansion of existing brands.
- Investing in growing the infrastructure of our Swimwear division to support both the international growth of both our JETS brand as well as Bondi Bather, which has now been fully integrated into the swimwear division.
- We continued to further invest in our broader Digital capability, investing in infrastructure including both people and technology to grow our own websites as well as 3rd party platforms and marketplaces.
- During the year we made targeted investments in new bricks and mortar sites and refurbishments, opening 14 new sites (9 of which were David Jones concessions). We refurbished a total of 19 sites during the year.
- We closed 16 stores during FY2018. This evidenced our promise of closing stores if rents are excessive and result in stores being unable to trade profitably.

Looking back on FY2018, we have made progress in a number of key areas of the business and have a strong foundation to create further value in FY2019.

FY2019

Whilst the macroeconomic and competitive pressures that all retailers face continue in FY2019, our strategic focus remains an active one that deals with the factors that are within our control whilst focussing on new growth opportunities.

Expanding on some of the elements Adam touched on earlier, our key areas of focus for FY2019 are as follows:

1. Continue to rationalise our store portfolio as consumers shift their spending from bricks and mortar stores to online. We will continue to focus on store profitability and close stores where we cannot achieve appropriate levels of profitability, especially in cases where we believe rental expectations are unrealistic in the current market. We are currently planning on closing 20 stores during the year.
2. Accelerate digital transformation across the portfolio through the company's own websites as well as third party sites.
3. Capitalising on the significant growth within our Designworks business as we realise the benefits from new brands and contract wins experienced during FY2018.
 - a. Lonsdale – continued growth through new categories with a full year effect of the brand for FY2019
 - b. Launch of Russell Athletic in January 2019
 - c. Relaunch of our Suburban brand in Target
 - d. Growth of Footwear and Accessories
 - e. Coles Mix business

- f. Leveraging the recently signed deal with Dunlop and Tennis Australia, including the Australian Open
4. Continued focus on the international growth of our Swimwear division
5. Heightened focus with our key concession partners to address the ongoing decline in our Review Concession business
6. Focus on the execution of our new Black Pepper strategy as we exit our independent wholesale channel in order to focus on retail
7. Growth of core brands, Yarra Trail and Marco Polo
8. Continued focus on financial discipline through cost and capital management initiatives

In conclusion, I would like to thank the shareholders for your ongoing support as well as thank the entire PAS team for their 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.

We will now move on to the formal section of the meeting.