

24 February 2020

THE PAS GROUP LIMITED H1 FY2020 RESULT

The PAS Group Limited (ASX: PGR) (“PAS”, “the Group” or “the Company”) today reported total revenue for the half year ended 31 December 2019 of \$129.9 million and underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA¹) for the half of \$3.7m which is within the guidance range outlined previously.

A summary of the Company’s financial performance for the half year ended 31 December 2019 is shown below:

\$ million	H1 FY2020	H1 FY2019	% Change
Total Revenue	\$129.9	\$140.7	-7.7%
Reported EBITDA	\$10.1	\$5.7	+78.0%
Underlying EBITDA¹	\$3.7	\$6.7	-45.3%
NPAT – Continuing Business	-\$1.0	\$1.3	n.m.
NPAT – Total Business²	-\$1.2	\$1.3	n.m.

SEGMENT PERFORMANCE

Retail

Total Retail sales were down 4.2% to \$61.7 million. This net \$2.7 million reduction in retail revenue included a \$5.9 million reduction related to the closure of 42 marginal, strategic or unprofitable bricks and mortar stores since the prior corresponding period in line with our plan of rationalising our store portfolio and opening fewer standalone stores. This included the strategic decision to exit 14 David Jones concessions and recently entering into an exclusive partnership agreement with Myer for our Review brand which is expected to deliver stronger concession margins and lower costs of doing business.

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*. Refer Appendix I for reconciliation between underlying and reported financial results.

² “Total Business” includes the results of the White Runway business which met the criteria to be classified as a discontinued operation for the half year ended 31 December 2019.

Soft consumer sentiment remains resulting in lower levels of foot traffic both in shopping centres and our stores and has been further impacted by the recent bushfires and adverse weather. However, like-for-like retail sales for continuing businesses increased 1.6% on the prior year, an improvement on the negative 5.6% experienced in H1 FY2019. Retail sales grew modestly through 6 new stores opened during the period and through the annualised impact of stores opened during FY2019, as well as growth in online sales. Growth in our customer loyalty programmes is up 16.0% year on year to 1.4 million members delivering 79% of retail sales in H1 FY2020. Overall retail sales margin remained constant year on year.

Online

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% driven by both the continued investment in the online customer experience as well as new technology to accelerate digital transformation across the portfolio.

Wholesale

Total Wholesale sales were down 10.6% to \$68.2 million. This \$8.1m reduction in wholesale revenue was impacted by the volume and timing of orders recognised in our Designworks business. However, Designworks achieved more than 50% sales growth in the prior corresponding period as it began to deliver on new contracts previously won across fashion apparel, sports equipment, footwear and accessories.

Black Pepper wholesale sales reduced by \$1.9m which was consistent with the Groups strategy to discontinue independent wholesale sales at the close of H1 FY2019. 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.

Cost of Doing Business (CODB)

Our continued focus on cost control resulted in CODB reducing by \$2.4m or 3.5% across the Group (before applying AASB 16 *Leases*).

IMPACT AND RESPONSE TO BUSHFIRES

The recent bushfires and unfavourable weather impacted a number of our employees, our customers, our stores and the communities within which we operate. Whilst nationally the majority of distress occurred from late December onwards, regional impacts were felt earlier and over the

November and December period 46 of our stores were directly impacted through a combination of store closures, heavy smoke affecting foot traffic and disrupted deliveries due to road closures.

Since the onset of the bushfire tragedy, PAS through a variety of events has donated a total of \$90,000 to various bushfire charities and has additionally pledged to donate product worth approximately \$490,000 to Good360.

DEBT AND CAPITAL MANAGEMENT PLAN

The Company utilises borrowings primarily to fund its cyclical working capital needs, does not hold any long-term debt and closed the half debt free with cash on hand of \$4.8m (31 December 2018: net debt of -\$1.4m). Working capital reduced by \$6.1m or 16.4% during the half as the Group continued its disciplined approach towards capital management.

In December the Group extended its finance facilities with its current lender, Commonwealth Bank of Australia and concurrently entered into a new receivables financing arrangement with Moneytech Finance. This new facility provides flexibility to support the Group's working capital cycle and will be classified as debt within the balance sheet when drawn. The process to refinance the remaining Commonwealth Bank facilities which are due to expire in August 2020 has commenced.

During the half, excess operating cashflows were reinvested to continue to progress digital transformation across the portfolio and to facilitate growth. This focus on investment in future growth continues to be prioritised and subsequently the Board has not declared an interim dividend.

BOARD AND LEADERSHIP CHANGES

The Board has been open about its desire to ensure PAS has the appropriate mix of skills and experience for the road ahead and the Group was delighted to announce over the past three months the retention of Managing Director Eric Morris and the addition of two highly experienced Australian based Directors in Launa Inman and Michael Gordon who bring to PAS significant and highly relevant executive and industry experience within the Australian retail environment.

Launa has adopted the roles of Chairperson of the Board and Chairperson of the Nomination and Remuneration Committee whilst Michael has adopted the role of Chairperson of the Audit and Risk Committee and is a member of the Nomination and Remuneration Committee.

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

STRATEGIC PRIORITIES AND OUTLOOK

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.

PAS will focus on online growth and expansion through own websites and third-party marketplaces as we deliver a true omnichannel experience to our customers.

From a retail perspective our principle of closing stores where returns are considered to be sub-optimal or landlord rental expectations are uneconomic remains unchanged. However we expect store numbers to remain stable moving forward following a strong period of rationalisation over the past two years. We are encouraged by the growth in Review as the business shows promising signs of turnaround whilst completion of the independent wholesale exit strategy in Black Pepper is allowing us to provide a more tailored offer.

The wholesale pipeline of opportunities for Designworks remains strong and we are exploring further expansion of the Sport division and the potential to capitalise on international growth opportunities via existing local relationships. Whilst JETS remains a relatively minor component of Group earnings, the Swimwear market remains highly challenged both within Australia and internationally and we have begun integrating the JETS division into the Designworks operation to best leverage both scale and expertise as growth has not progressed at the pace intended.

PAS sources a large component of its apparel from factories in China and the spread of the coronavirus has resulted in extensions to the traditional Chinese New Year factory and port closures whilst quarantine restrictions have been implemented. This prolonged slowdown in industrial activity has resulted in delays to the resumption of production and shipping 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.

We have also observed further reductions to foot traffic in some key shopping precincts and until the potential shipping backlog is cleared from China and the local market response stabilises, it is not possible to accurately forecast the impact the coronavirus may have on the full year financial results.

Given the uncertainty this situation has created and despite the recent growth experienced in retail like-for-like sales which are tracking at 1.0% for the first seven weeks of H2FY2020, PAS is unable to provide full year profit guidance at this time.



Mr Morris commented: “Whilst the Group was unable to replicate the full extent of the substantial wholesale growth achieved in H1FY2019, against a backdrop of continued macro-economic pressures we were pleased to have achieved positive retail like-for-like sales for the first half. This reverses the previous negative trend and reinforces that focussed execution on our longer term strategic and operating priorities can deliver growth in difficult market conditions.”

-ENDS-

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APPENDIX I – H1 FY2020 RECONCILIATION OF REPORTED AND UNDERLYING RESULTS

Reconciliation of Reported and Underlying EBIT and EBITDA	31 Dec 2019	31 Dec 2018
	\$m	\$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
<i>Add back:</i>		
Underlying adjustments before tax	1.3	1.0
Impact of adoption of AASB 16 <i>Leases</i> 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	31 Dec 2018
	\$m	\$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
<i>Add back:</i>		
Underlying adjustments after tax	0.9	0.6
Impact of adoption of AASB 16 <i>Leases</i> after tax	0.1	-
Underlying NPAT from continuing operations	(0.0)	1.9

The Group 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, how the business is run or on actual cash flows, adoption has resulted in the majority of (but not all) premises costs being reclassified as depreciation and interest expenses, thus increasing Reported EBITDA.

For further information please refer to the Group's Interim Financial Report for the half year ended 31 December 2019 and the H1 FY2020 Results Investor Presentation.