

OROTONGROUP

HY17 INVESTOR PRESENTATION
28 March 2017

OROTON



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CFO – Vanessa De Bono

Soft Post Christmas Sales and Currency Headwinds Impact Interim Earnings. Investment in The Daily Edited (TDE) Announced

	HY17 Reported \$ M	HY16 Reported \$ M	Change %
Revenue	67.1	74.5	-10%
- Group LFL Sales Growth	-11%	+10%	
Gross Margin (%)	60.7%	60.1%	+60bps
Cost of Doing Business ⁽¹⁾	35.7	36.0	-1%
Cost of Doing Business (%)	53.2%	48.3%	
EBITDA ⁽²⁾	5.0	8.9	-44%
EBITDA Margin (%)	7.5%	11.9%	
Depreciation, Amortisation and Impairments	2.3	2.6	-14%
EBIT	2.7	6.2	-56%
EBIT Margin (%)	4.1%	8.3%	
NPAT	1.8	3.8	-52%
EPS (cents)	4.5	9.2	-52%
Interim DPS (cents) / Fully franked	0.0	6.0	-
Net Cash / (Debt)	5.2	2.0	

(1) Cost of Doing Business: Total operating expenses less finance costs, depreciation, amortisation and impairments

(2) Earnings before interest, tax, depreciation, amortisation and impairment

(3) Discontinued categories are women's apparel, shoes and lingerie in Oroton

- Overall Group Revenue declined -10% mainly due to the exit of discontinued categories and lower Factory Outlet sales in Oroton and a decrease in GAP sales
- Group like for like (LFL) Sales excluding discontinued categories⁽³⁾ was -8%, however LFL sales⁽³⁾ in Oroton First Retail Boutiques and Concession stores was positive against very strong LFL sales of 11% last year
- From Boxing Day onwards, foot traffic to all stores, across all channels and both brands, softer than last year. This trend continued throughout January and adversely impacted the groups results
- Group EBITDA⁽²⁾ was \$5.0m at the top end of the January 2017 guidance, due to the lower revenue and \$1.3m foreign currency impact, from fall in buying hedge rate, notwithstanding improved gross margin percentage and expense reductions
- Earnings per share declined to 4.5c vs 9.2c last year
- Group Balance sheet includes \$5.2m cash, compared to \$2.0m at HY16 and \$2.8m at FY16
- Announced on 27th March 2017 the purchase of approx 30% of TDE for \$4.5m with the ability to raise this to a majority stake in future periods
- Subsequent to the \$4.5m strategic investment in TDE, the Board has determined not to declare an interim dividend, believing it is in the best interests of the company and shareholders to allocate and preserve capital for this exciting growth initiative

Oroton – positive momentum in First Retail stores core categories points to traction in brand repositioning

- ❑ LFL sales in First Retail and concessions stores were positive, after excluding discontinued categories⁽³⁾, against very strong prior period
- ❑ Total brand LFL sales -11%, with lower Factory Outlet store sales and lower sales as a consequence of discontinued categories across the network, outweighing the improvements in full price, concession and international stores
- ❑ Factory Outlet sales impacted by lower traffic, lack of product depth & variety and sell down of the exited categories compared to last year
- ❑ Gross Margin on constant currency basis improved 230bps (300bps in First retail stores) due to better supplier cost prices
- ❑ Women's handbags continue to drive growth in full priced stores and online with higher unit volume, through more relevant, functional, differentiated styles
- ❑ Repositioning attracting new customers to the brand:
 - Newly injected styles from new design team proving to be instant hits
 - Continued strong sales results from Limited Edition styles
 - New store concept continually being refined to be more productive
 - Newly reintroduced categories of Jewellery and watches, complement overall product mix
 - Expansion of personalisation and co-creation opportunities such as Aaron Favolaro hand painted range
- ❑ New direction in marketing campaigns, connecting with a broader/younger audience
 - Transition away from Rose Byrne to younger influencers – lower cost
 - Investing in growing Social following main priority
 - Conscious capitalism initiatives such as The Great Barrier Reef collection



Oroton – investment in brand repositioning continues

- ❑ International stores achieved positive LFL sales in the half and now cash flow positive
- ❑ The 2 new Myer Concessions traded well with potential for further roll out
- ❑ Further Investment in product pages, navigation, checkout maintained online sales at ~12% of sales mix, despite decline in LFL's driven by the online Outlet
- ❑ Travel Retail strategy gaining momentum with product listings continuing on major airlines, Cruise Ships and at both airport and downtown duty free stores
- ❑ Store footprint under continuous review to right size to current customer shopping habits
- ❑ Total store count 62 (FY16: 63) with the re-opening of the Oroton boutique at Sydney International Airport, the opening of 2 Myer Concessions, 1 new Factory Outlet and 5 closures of non performing stores



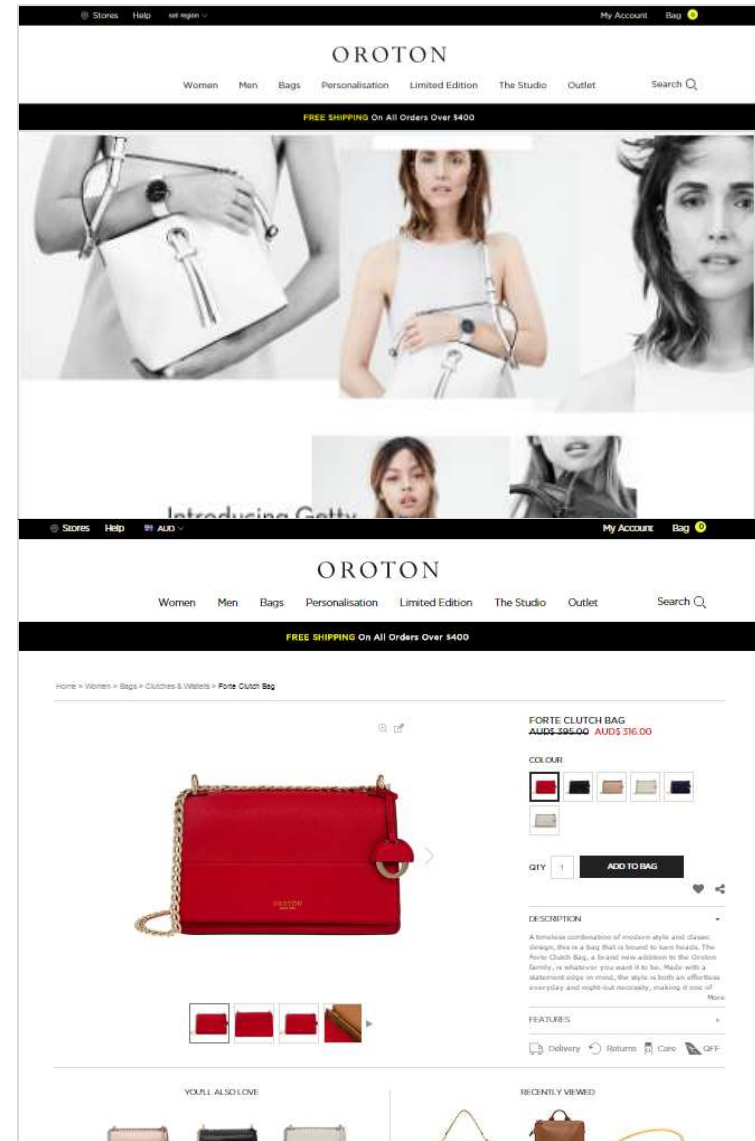
Myer Sydney



Sydney International Airport

Oroton – investment in all customer touch points a priority

- ❑ Continued movement of customers from just bricks stores to both bricks and online
- ❑ Online traffic continues to grow, with the online store a strong 12% of sales mix
- ❑ Recent investments in navigation, product pages and checkout have led to higher conversion and basket size across all devices
- ❑ Traffic to mobile continues to grow with investment in H2 to launch a mobile responsive site to further improve conversion on portable devices. This coincides with new payment, delivery and gifting options (card and wrap) for improved UX
- ❑ Complete relaunch of site aesthetic in Feb 17 to coincide with AW17 launch to appeal to a younger audience
- ❑ Complete Client Services strategy, allows customers to interact physically or via phone, email or Live Chat with our locally based team



GAP – soft sales result compared to strong prior period

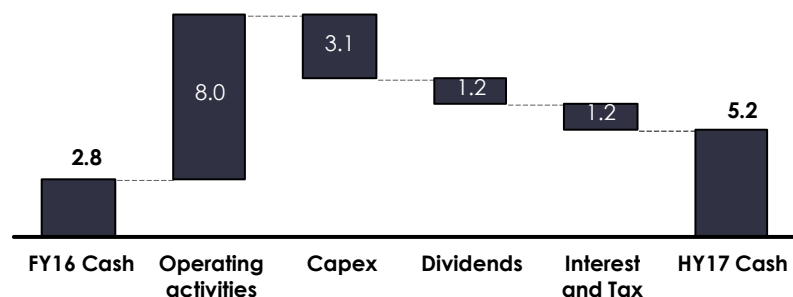
- ❑ LFL sales -12% compared to +6% in prior period
- ❑ Sales impacted in key markdown period of October and late December/January due to aggressive overall apparel market and cold start to Spring
- ❑ Traffic to stores was also lower than last year, part of structural change in shopping habits, with currently no ability to pick up traffic online
- ❑ Sales also impacted by lower inventory levels in Kids & Baby than last year, which was inflated by purchase for Concessions in the prior year and a women's range that did not perform globally
- ❑ Local online store due to launch in July 17 which will lead to nationwide reach and a more seamless shopping experience for customers
- ❑ No more physical stores planned for next 12 months
- ❑ Brand expected to continue to be loss making in FY17



Balance Sheet

	HY17 Reported (\$M)	FY16 Reported (\$ M)	HY16 Reported (\$ M)
PP&E	11.6	10.8	13.6
Inventory	32.8	30.7	33.4
Net Assets	35.1	35.7	46.1
Net Cash / (Debt)	5.2	2.8	2.0
Net Debt / Equity	N/A	N/A	N/A
Operating cash flow (before interest and tax)	8.0	17.0	11.8

- ❑ The Group's growth opportunities supported by:
 - \$35.1m in net assets
 - Net cash of \$5.2m and no debt at the half year end
 - A \$35m bank facility
- ❑ Operating cash flow (before interest and tax) was 8.0m, a decrease of 3.8m from the corresponding prior period mainly due to a decrease in EBITDA of 3.9m.
- ❑ During HY17 the Group's investments were aligned with the strategy to continue capital expenditure in Oroton new concept stores, invest in e-commerce systems and systems for a new on shore distribution centre
- ❑ Conservative Hedging policy in place to manage FX risk covering 85% of forecast USD transactions up to 24 months out
- ❑ On 27 March 2017, the Group announced that it had agreed to purchase approximately 30% of The Daily Edited ("TDE") for \$4.5m in the form of OrotonGroup Limited shares and cash . Refer to the Half Year Interim Report Note 8 for further details



The Daily Edited – strategic investment in fast growing online lifestyle accessories brand to complement the group

- ❑ Highly strategic investment announced post balance date
 - Growth - complementary positioning to leverage OG back office as platform for future growth
 - Diversification - will add to groups online exposure and strengthen groups exposure to youth market
 - Scale – improves groups scale, improve operating margins and access broader market
- ❑ Rapidly growing Lifestyle accessories brand creating luxury at an accessible price point through simple, timeless and personalisable accessories
 - Founded in 2014 by Alyce Tran and Tania Liu, 2 former lawyers
 - Forecast to achieve sales for FY17 of approx \$19m a three fold increase compared to FY16
 - Primarily online retail business with 1 pop up retail store and 6 department store concessions across Australia
 - Youthful, disruptive brand, pitching to 18-35 age demographic (both female and male), strong social media presence
 - Fast non-seasonal product cycle



Outlook for FY17 – Core Orotan Brand focus on Investment

Orotan Brand
Repositioning
Continues



- Relevant, Functional differentiated product
- Reduction in average selling prices
- Younger, fresher campaign content
- Social first
- First class customer experience across all touch points
- International losses eliminated, new distribution identified

Gap



- Improved sales through more targeted promotions
- Improved seasonal offer for Fall/Holiday 17
- Launch local online store July 17

The Daily Edited



- Strategic investment to create growth, scale & diversification
- OG back office creates platform for future growth
- Initial 30% investment with opportunity for majority in future periods

Support Services



- Low cost support centre for 3 brands
- Enhanced supply chain capability:
 - New local distribution centre based in Sydney
 - Improved end to end supply chain visibility and management

Store Listing – as at January 2017 there were 62 Oroton and 7 GAP stores

OROTON

AUSTRALIA & NEW ZEALAND

ACT

CANBERRA

NSW

BIRKENHEAD POINT
BONDI JUNCTION
BURWOOD
CASTLE TOWERS
CHATSWOOD
DJ'S ELIZABETH STREET
DJ'S CHATSWOOD
DJ'S BONDI
HOMEBUSH
HOMEBUSH LINGERIE
HORNSBY
KOTARA
LIVERPOOL
MACQUARIE CENTRE
MIRANDA
MYER SYDNEY
PARRAMATTA
PITT ST MALL
Q V B
SYDNEY INTERNATIONAL AIRPORT
SYDNEY DOMESTIC AIRPORT
WARRINGAH MALL
WESTFIELD SYDNEY

WESTERN AUSTRALIA

DJ'S PERTH
GARDEN CITY
HAY STREET
JOONDALUP
KARRINYUP
WATERTOWN

VICTORIA

CHADSTONE
DJ'S BOURKE STREET
DJ'S CHADSTONE
DONCASTER
EMPORIUM
ESSENDON
EASTLAND
HIGHPOINT
MOORABBIN
MYER MELBOURNE
NUNAWADING

QUEENSLAND

BRISBANE CBD
BRISBANE DFO
CARINDALE
CAIRNS
CHERMSIDE
DJ'S BRISBANE
HARBOURTOWN GOLD COAST
INDOOROOPIILLY
PACIFIC FAIR
ROBINA

SOUTH AUSTRALIA

ADELAIDE CBD
BURNSIDE VILLAGE
DJ'S RUNDLE MALL
HARBOURTOWN SA
MARION

NEW ZEALAND

OSBORNE STREET
ONEHUNGA

ASIA

SINGAPORE

VIVO CITY

MALAYSIA

JOHOR BAHRU
KLCC
1 UTAMA

ONLINE

www.orothon.com
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AUSTRALIA

NSW

MACQUARIE
MIRANDA
PARRAMATTA
WESTFIELD SYDNEY
BIRKENHEAD POINT

VICTORIA

CHADSTONE
MELBOURNE CENTRAL

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