2017 HALF YEAR RESULTS ANNOUNCEMENT
28 March 2017

SOFT POST CHRISTMAS SALES AND CURRENCY HEADWINDS IMPACT INTERIM EARNINGS

The board of OrotonGroup Ltd (the Company) today announced the Company’s financial results for the half year ended 28 January 2017 (HY17).

In summary:

- Overall Group Revenue declined -10% to $67.1m 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\(^{(1)}\) were -8%.
- Group EBITDA\(^{(2)}\) was $5.0m (HY16 $8.9m) and at the top end of the guidance given on 28 January 2017. This reduction versus the same period last year was primarily due to the revenue decline and a $1.3m foreign currency impact, from a fall in the hedged buying rate, notwithstanding an improved gross margin percentage and expense reductions.
- Earnings per share declined to 4.5c vs 9.2c during the same period last year.
- The group had cash $5.2m at HY17, compared to $2.0m at HY16 and $2.8m at FY16, with no debt.

OrotonGroup CEO, Mark Newman, commented, “Clearly this is a very disappointing first half result for the Group. Positive trade in the second quarter up to Christmas Day was outweighed by sluggish sales in the first quarter and the much publicised, highly discounted and soft retail market from Boxing Day onwards, where foot traffic to all stores, across all channels and both brands, was lower than last year. This trend continued throughout January and adversely impacted the Group’s results. “

We continue to be encouraged by the momentum in the repositioning of the core Oroton brand, where positive LFL sales in the first retail and concession stores, excluding recently discontinued categories\(^{(1)}\), were achieved, against very strong LFL sales from last year of +11%. However, overall group revenue was -10% due to the Oroton Factory Outlet stores trading lower than last year.

Also impacting the result, was lower revenue from the GAP stores as the brand cycled some strong LFL sales last year (HY16 +6.4%) in a highly discounted apparel market, a cold Spring and a womens’ range that did not perform globally.

The Company announced yesterday a strategic investment of approximately 30% in complementary, fast growing, online lifestyle accessories business, The Daily Edited for $4.5m with the ability to raise its interest to a majority stake in future periods.\(^{(3)}\) As a result of the investment, the Board has determined not to declare a dividend for the half, believing that at the current time it is in the best interests of the Company and shareholders to allocate and preserve capital for this exciting growth initiative.

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<th>HY17 $m</th>
<th>HY16 $m</th>
<th>Change %</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>67.1</td>
<td>74.5</td>
<td>-10%</td>
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<tr>
<td>Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment (EBITDA)</td>
<td>5.0</td>
<td>8.9</td>
<td>-44%</td>
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<tr>
<td>Earnings Before Interest and Tax (EBIT)</td>
<td>2.7</td>
<td>6.2</td>
<td>-56%</td>
</tr>
<tr>
<td>Net Profit After Tax (NPAT)</td>
<td>1.8</td>
<td>3.8</td>
<td>-52%</td>
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<tr>
<td>Basic Earnings Per Share (EPS) (Cents)</td>
<td>4.5</td>
<td>9.2</td>
<td>-52%</td>
</tr>
<tr>
<td>Interim Dividend Per Share (DPS) (Cents – Fully franked)</td>
<td>0.0</td>
<td>6.0</td>
<td>-</td>
</tr>
<tr>
<td>Net Cash / (Debt)</td>
<td>5.2 HY16</td>
<td>2.0 HY16</td>
<td>2.8 FY16</td>
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Oroton

In the main engine of the Group, the core Oroton brand, we are continuing to see the brand repositioning gain momentum with positive LFL sales in the full price and concession stores (48 stores at HY17) excluding discontinued categories, as the brand is delivering more relevant, functional, differentiated product, that is driving higher sell through and conversion and created to appeal to a younger, broader market. This new design direction has been coupled with a more contemporary, fresher marketing campaign for AW17.

During the half, we were pleased to re-open at Sydney International Airport and be the only Australian brand to secure a boutique in the new luxury precinct. We also broadened our department store distribution with the opening of our first concessions at Myer, in both the Melbourne and Sydney stores.

In the brands’ International stores, LFL sales were positive in the half and were cash flow positive (4 stores at HY17).

Total brand LFL sales in the half were -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. Sales from the Factory Outlet stores (14 stores at HY17) were impacted by lower foot traffic, a lack of variety and depth of product, as there was less old seasons inventory coming out of the first retail stores at the end of the Winter 16 season. Sales were also impacted by the sell down of the previously mentioned discontinued categories and 1 store closure, partly offset by 1 store opening mid way through the half.

Importantly, Gross Margin on a constant currency basis improved in the half by 230bps, with an improvement of 300bps in the first retail and concession stores.

The pattern of increased traffic to the Online store and lower traffic to physical stores continues, as more and more of our customers choose to shop across both channels. Sales via the online store now represent approx. 12% of sales, still above most of our peers. We continue to prioritise and invest in this store and had a complete relaunch, in early February, with enhanced navigation, product pages, checkout and delivery options. As our business continues to evolve, our strategy has been to monitor and plan our physical store network and either upgrade to the new concept or close marginal stores to reduce the network size to meet our customers needs.

GAP

LFL Sales in the GAP stores were -12% as the brand also cycled strong positive LFL’s of +6% in the first half of FY16, with sales impacted by lower foot traffic, particularly in the key markdown periods of October and December/January, a women’s range that did not perform well in other markets and lower levels of inventory, compared to last year, which were unusually high. In addition, the overall apparel market was very discounted throughout the Spring/Summer season, leading to aggressive competition for customers spend as a result of a cool start to the Spring. The brand will launch a local online store in July, which will improve brand visibility and accessibility.

OUTLOOK

Group LFL sales have improved over the past 7 weeks and although still negative, are showing an improving trend. Importantly, the Oroton first retail and concessions stores have recorded an acceleration in positive LFL sales and margin, with a good reaction to the new Autumn collection and marketing campaign. Although sales have remained soft, inventory quality in the Factory Outlet stores has also improved and will allow for a more effective promotion plan throughout the rest of the second half. Sales in the GAP brand have also improved in the last few weeks as the weather cools down and we launched a collection that had a more positive reaction in the Northern Hemisphere.

Whilst we remain cautious about the overall market, our focus for the remainder of the year is on continuing to grow the core Oroton first retail business, rejuvenating and balancing the important Factory Outlet business contribution, re-setting the GAP brand and providing a strong support platform for The Daily Edited to enable it to continue on its strong growth trajectory.”

(1) Discontinued categories are women’s apparel, shoes and lingerie in Oroton
(2) Earnings before interest, tax, depreciation, amortization and impairment
(3) Refer to ASX announcement on The Daily Edited dated 27th March 2017
Non-IFRS information
The financial information provided includes non-IFRS information which have not been audited or reviewed in accordance with Australian Accounting Standards but are based on the Half Year Financial Statements. This information is provided to assist readers in making appropriate comparisons with prior periods and to assess the performance of OrotonGroup.

This non-IFRS information is referenced to the following footnotes:

(2) EBITDA is Earnings Before Interest, Tax, Depreciation, Amortisation and Impairments

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Please read this announcement in conjunction with OrotonGroup’s HY17 4D and Interim Report, the Investor Presentation dated 28 March 2017, and other periodic and continuous disclosure announcements filed with the Australian Securities Exchange. These are available at www.orotongroup.com

For further information please contact:
Mark Newman, CEO/MD or Vanessa De Bono, CFO/Company Secretary, Tel: +61 2 8275 5500