OROTONGROUP

Trading Update FY 2017
17 May 2017

OrotonGroup Ltd (the Group) today announced:

- Soft trading conditions in the key Mid-Season Sale in April have continued the decline in earnings trend identified at the Half Year announcement
- At the Half Year, revenues were down 10% on PCP, EBITDA[1] was down $3.9m or 44% on PCP
- Q3 YTD Group revenues, which includes April, are down by 11% relative to the PCP (based on management accounts)[2] and have fallen short of management expectations
- Poor and competitive market conditions during April Mid-Season Sale are expected to continue during the more important End of Season Sale of June/July and will further adversely impact financial performance during the remainder of FY17
- Although difficult to forecast due to these uncertain and volatile market conditions, underlying EBITDA[3] is now forecast to be approximately $2m to $3m for FY17, down approximately $10m on the prior year (FY16: $12.9m)
- This forecast reduction versus previous corresponding period in underlying EBITDA[3] is primarily due to actual and forecast lower sales volumes in Sale periods and Oroton factory outlets, increased GAP losses, discontinued Oroton categories[4], and a fall in the hedge buying rate.

OrotonGroup Interim CEO Ross Lane said “Challenging conditions experienced across the retail market in April 2017 with low consumer confidence and a competitive market, has meant the Group’s April Mid-Season sales were below management’s expectations and reflected a further decline from that seen in the first half.

April is always an important trading month for the quarter, and the lower April sales and consequential decline in earnings for the 3rd quarter was disappointing given the improvement seen early in Q3. At a group level, like for like store sales excluding discontinued categories[4] improved from -8% against PCP in the first half to -2% against PCP for the first 7 weeks of Q3. During this period the launch of the new Autumn collection resulted in Oroton boutiques and GAP stores like for like sales of +4% against the PCP excluding discontinued categories[4].

Notwithstanding this, given the recent retail market trends of poor April Mid-Season and January Summer Sales, and low consumer confidence, management consider it prudent to reassess the outlook for the full financial year, including projected sales for the important upcoming June/July Winter sales. Although difficult to forecast due to the tough retail environment, underlying EBITDA[3] is now forecast to be approximately $2m to $3m for FY17.

The significant fall in forecast FY17 underlying EBITDA[3] compared to the prior financial year reflects a continuation of the trend reported at the Half Year, actual and management re-forecast lower sales volumes, a fall in the hedge buying rate (continuing the earnings impact of foreign currency movements reported at the Half Year) and increased GAP losses, specifically:

- Oroton Domestic- Actual and forecast lower sales primarily during key Sale periods, together with lower factory outlet sales, have magnified the approximate $2m full year impact of discontinued categories[4]. In addition, a further fall in the hedged buying rate continues to impact expected earnings in the second half, with a full year forecast negative impact of approximately $3m (1HFY17 -$1m). Based on management’s revised sales assessment, this is no longer expected to be fully offset by revenue;
- Oroton International - Since the recent closure of the last Singapore store during Q3, Oroton International is reset, and is now no longer loss making;
- GAP – Performance has further deteriorated in an aggressive apparel market, especially during key Sale periods, leading to a forecast negative impact on FY17 underlying EBITDA[3] of approximately $3.5m compared to the prior year.

Since commencing as interim CEO, my team and I are very focused on improving the overall business performance of the Group.

The Board acknowledges that the current level of profitability is unacceptable. We have engaged investment bank Moelis & Company to assist in conducting a strategic review to assess our various options.

Our full year earnings announcement is planned for 21st September 2017, at which time we will update the market on the results in more detail together with progress made regarding the various initiatives underway."

(1) Earnings before interest, tax, depreciation and impairment
(2) Management accounts are unaudited
(3) Underlying EBITDA(1) excludes non core costs primarily associated with the acquisition of the Daily Edited and leadership transition
(4) Discontinued categories are women's apparel, shoes and lingerie in Oroton

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Non-IFRS information
The financial information provided includes non-IFRS information which has not been audited or reviewed in accordance with Australian Accounting Standards. The half year non IFRS information is based on the Half Year Financial Statements, and the other non-IFRs information is based on unaudited management accounts and forecasts. This information is provided to assist readers in making appropriate comparisons with prior periods and to assess the performance of OrotonGroup. Because this non-IFRS information is not based on Australian Accounting Standards, it does not have standard definitions, and the way the Group has calculated these measures may differ from similarly titled measures used by other companies. Readers should therefore not place undue reliance on these non-IFRS Financial measures

This non-IFRS information is referenced to footnotes (1), (3) and (4).

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