OROTONGROUP

2016 ANNUAL GENERAL MEETING
Thursday 1st December, 11am
The Hilton Sydney,
Level 1, Rooms 3, 488 George Street, Sydney

CHAIRMAN'S ADDRESS

At our year end results announcement in September, we highlighted that FY16 concluded the second year of transformational change at OrotonGroup focussed on restoring the strength of our core Oroton business and developing the Gap brand to a position of sustainable profitability. We are making good progress on that journey and Mark Newman will take you through the progress we are making in his address.

FY16 was a positive year with revenue growth of +3% from to $136.4m, an increase in EBITDA of 19% to $12.9m, and an increase in EBIT of 10% to $6.2m after accounting for non cash store asset write downs of $1.6m. On a more comparable basis, the underlying (1) EBIT grew by 15% to $7.9m.

We achieved a very encouraging 31% growth in Net profit after tax which is higher than the EBIT growth of +10% due to reduced financing charges from an improved cash position and a lower effective tax rate with less non deductible international losses.

Earnings per share increased 32% to 8.4 cents (FY15: 6.4 cents) and the Board was very pleased to increase the full year dividend by 38% to 9.0 cents per share (FY15: 6.5 cents per share).

Group gross margin declined in the year by 60bps to 60.1% with the Group largely offsetting the downward pressure from the AUD weakening with a conservative hedging policy and measured retail price increases.

Expenses as a percentage of sales decreased 100bps to 55.9% due to reduced warehouse, distribution and admin costs, retail costs remaining contained, offset by a continued investment in marketing.

The Group ended the year with a strong balance sheet, an improved return on capital and a year-end net cash position of $2.8m to support future growth initiatives. We continue to maintain a very conservative hedging policy to manage currency risks.

Our strategy to reinforce the affordable luxury positioning of the Oroton brand is well underway. The investments made in our new store concept, online and in store customer experience, marketing campaigns and limited edition products have all positively impacted the customers' perception of Oroton and led to an increase in average selling prices and transaction values.

The Oroton online store continues to grow due to enhancements we have made to the website. Our online store represented 12% of the brand sales during the year and we saw increases in traffic, page visits, time on site and conversion rate.

During the year we made some good progress with the International business which resulted in us being able to halve the losses from the previous year.

Continued brand awareness in GAP together with strong sell through of core ranges, effective promotions and visual merchandising has led to an accelerated trading performance of the Gap brand in FY16 with losses significantly reduced. Our strategy remains focused on effective marketing, customer engagement, supply chain efficiencies and cost control.

Importantly we launched the first Gap Online store with David Jones and plan to launch our own online branded store late in FY17.

We are also launching in FY17 the initiatives from our FY16 supply chain review which will improve end to end supply chain management, and result in cost savings over the coming years.

The Group had 70 stores at year end – 63 for Oroton, which includes 8 international stores and 7 Gap stores – importantly we also have an integrated presence across all the physical and online distribution channels of first retail, wholesale, concession and factory.

All of these initiatives in both Oroton and Gap continue to gain traction which Mark will shortly elaborate on together with an update on trading for the first 17 weeks of FY17.

As we look forward to FY17 our strategy is primarily focussed on continuing to reposition our core Oroton brand back to sustainable growth and to eliminate the early investment losses in the GAP brand.

As announced to the market in September, the start of FY17 remains challenging as we cycle strong comparable store sales growth from last year in a continuing very competitive market. However, as always at this time of year, the biggest trading months of the year are still to come and accordingly the first half of the financial year is hard to forecast.
We are confident that as we approach this important holiday trading period we have a strong product offer and marketing programme, engaged customers and motivated teams.

Finally, I would like to express my sincere thanks to my board colleagues, our very hard working and skilled management team and staff, our customers and, of course, you our shareholders for your continued support of our wonderful business.

I will now hand over to Mark who will talk you through FY16 in more detail and, more importantly, our plans for FY17 and beyond.

(1) FY16 Underlying results are reconciled to IFRS audited measurements through the add back of store asset impairments totalling $1.6m (rounded) net of related tax effect where applicable. FY15 Underlying comparatives are reconciled to IFRS audited measurements through the add back of the onerous Hong Kong Store lease after exit ($0.8m), the closure of the Singapore office ($0.2m) and the trading losses ($1.8m) and gain on exit ($1.7m) from Brooks Brothers Australia. Underlying comparative add backs totalling $1.2m (rounded).

MANAGING DIRECTOR'S ADDRESS

Thank you John and good morning everyone.

At last years AGM I highlighted that the group was in the middle of a period of transformation, focussed on 3 key pillars. Firstly, the repositioning and elevation of the core Oroton brand here in Australia; secondly, the consolidation of the Oroton brand in the international channel to eliminate losses and thirdly, the development and growth of the Gap brand to ensure a sustainable business.

I am pleased to report that during the 12 months since that address, we have made some good progress in all 3 of those strategic initiatives, which resulted in a 31% improvement in net profit after tax for the FY16 financial year. I would like to address the progress against each of those initiatives in more detail.

Firstly our core Oroton brand.
The focus of our efforts this past year have been on reinvigorating this iconic Australian brand, through investment in product, customer experience, both in store and online and in engaging marketing initiatives that create an emotional connection and build a broader customer base for the future.

In terms of product development and innovation, our design team have put extra focus on our core women's handbag collections, with the introduction of more colour and more accessible price points, aimed at a younger audience, in order to expand our customer base.

We have expanded our range of limited edition bags, which are at the top of our price range and have become collector's items by our core customers. The design team have also introduced a range of personalisation and customisation options to our handbags and wallets that allow our customers to make them their own.

In addition, we took the decision to exit some categories in first retail that had become unprofitable by the end of 2016. This has allowed us to further focus on our core ranges and our best sellers.

Another key element of the brand repositioning is customer experience and the store environment in particular. During the year we continued to roll out our new store concept, but made some changes to the look of the store and added some new fixture elements that allow us to display the newer styles in a better way.

At the end of FY16 we had converted 41% of our first retail network into this new concept which achieves higher average sales per square metre, higher average transaction value and higher conversion rate than the old concept stores. We continue to refine the concept and to invest in world class window displays, in store visual merchandising standards and our clientelling program which includes, mobile point of sale, product look up, in store hospitality and shopping storage.

In the area of Marketing and Customer engagement, our relationship with Rose Byrne as the face of the brand for our seasonal campaigns continues, but in addition we invested heavily in digital content creation and influencer partnerships to reach a broader audience, which led to an increase in social engagement and growth in our overall customer database. Our focus on building long term customer loyalty continued, with the introduction of more targeted messages through email, birthday campaigns, repeat purchase incentives and other surprise and delight offers.

The Oroton online store saw further growth, reaching 12% of brand sales, due to enhancements we have made to the website such as easier navigation, product search, improved product pages, faster checkout and improved customer service through the introduction of live chat and targeted pop ups.

During the year we made good progress with our international business which resulted in us being able to half the losses from the previous year. This was achieved from a combination of maintaining top line sales but also by closing some of the loss making stores.

GAP

Moving to GAP, it was a strong year for the brand with good like for like sales growth, including from the 3 stores that have now been open for nearly 5 years that have not reached a level of maturity. This was achieved through a focus on range planning appropriate to the Australian customer, in particular Gap logo product, shorts, denim and Kids & Baby ranges. There were 7 GAP stores in operation at year-end.

Outlook

Moving to current trade, our Group LFL[1] sales were -8% for the first 17 weeks of FY17, as we cycle strong comparable store sales in both brands and whilst disappointing, this period does not represent a significant part of our full year trade.

Encouragingly, in the Oroton brand, where our strategy has been to elevate the first retail stores, we've seen a positive 11% LFL[2] sales in those stores, after excluding the non continuing categories previously mentioned. With the resurgence of this important first retail physical channel, fewer customers were attracted to the lower margin factory outlet stores that recorded LFL sales declines.

As we move into the all important Christmas and New Year holiday period, we will begin to cycle a less aggressive base and have a strong product offer, which includes new jewellery, watch, and gift ranges designed for Christmas which have just arrived in store, together with an exciting range of fragrances.

We recently opened our first 2 new Myer concessions and a new boutique at Sydney International Airport is due to open in December. In addition, we've conducted some important research that maps our store network to our core customer base and identified the potential for several more stores to expand our overall first retail network further.

In the last few months, we announced that Oroton had become the first Australian luxury accessories brand to join the Qantas Frequent Flyer program. We see this as a natural brand fit, with the two iconic Australian heritage brands already sharing a common customer base and the partnership is already delivering some very strong results.

In the GAP brand, lower LFL[1] sales of -8% so far this year, was primarily due to a poor October mid season sale event and importantly we have seen an improvement in trade in November. We will also begin to cycle a lower base as we go into the second quarter. In the last few months, we have launched an online concession for GAP with David Jones, which gives us the ability to reach potential customers from outside of New South Wales and Victoria. This will be a good benchmark for our planned launch of a full local Gap online store towards the end of FY17.

Finally, I would like to thank the board, management and our entire team for their continued support and efforts over the last 12 months.

Thank you and I will now hand back to John.

(1) Like for Like stores

(2) First Retail Like for Like stores and product categories

For further information please contact:
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