OROTONGROUP

2015 Half Year Results Announcement - 19 March 2015

HY15 Revenue up 6% to $66.8m and underlying EBIT down to $4.8m from $8.0m in HY14 as the Group repositions the core Oroton brand and expands the distribution reach of new brands

OrotonGroup today reported:

- Group revenue in HY15 increased 6% to $66.8m (HY14: $62.9m) with like for like sales of -6% (HY14: +3%) primarily due to less discounting in the Oroton brand
- Group underlying EBIT(1) for the period was $4.8m (HY14: $8.0m). Excluding the Brooks Brothers equity accounted joint venture the adjusted underlying EBIT was $5.8m compared to $8.2m in the prior year
- Group EBIT for the period was $4.5m after accounting for the one-off significant item(1) of $0.3m for the closure of the Hong Kong store as previously announced
- NPAT reduced to $2.2m vs. $5.1m in HY14, with an effective tax rate of 47% compared to 37% in the prior year primarily due to the increased non tax-deductible loss from the equity accounted Brooks Brothers joint venture
- EPS was 5.4 cps for HY15 (HY14: 12.4 cps)
- Net debt was $5.6m at the half year end (HY14: $11.3m net cash) with the movement primarily due to the initial investment in the launch of Brooks Brothers in February 2014 and the opening of 3 new GAP stores
- The Board has declared an interim fully franked dividend of 4.5 cps (HY14: 8cps). The payout ratio has been increased during this period of transition for the Group.

OrotonGroup CEO, Mark Newman, commented, “HY15 was a period of repositioning of the Oroton brand and expansion of the distribution reach of both the GAP and Brooks Brothers brands. As anticipated in our announcement in January, the underlying EBIT of $4.8m compared to $8.0m, reflected lower sales as a result of reduced discounting in the Oroton brand, continuing start up costs in Brooks Brothers, which only commenced trading in H2-14 and the further expansion and associated one-off costs in opening 3 new GAP stores.

After the first six months of its implementation, the Oroton brand strategy to reduce the level of discounting, with a focus on quality margin generation has, as expected, led to lower sales and is reflected in the like for like sales of -6.5% vs. HY14. Importantly, the net margin percentage to sales has improved in line with this strategy.

Our key strategic focus to elevate the brand, including the campaign with internationally acclaimed Australian actress Rose Byrne and the further rollout of the new store concept to 10 stores, is resonating well with consumers.

Three new GAP stores were opened as we expand distribution, taking the total store count to 6. The like for like sales decline of -0.9% for the 3 original stores which cycled their first year in November, was coupled with strong gross margin growth, through better range planning, improved intake margin and supply chain efficiencies. However, the brand had a higher negative contribution compared to HY14, primarily due to the costs associated with the new store openings.

The Brooks Brothers business that only commenced trading from February 2014, experienced larger start up costs and a greater loss than expected during the half due to the earlier than planned opening of the Sydney flagship store, the delayed launch of the online store and a higher outlet sales mix.

Net debt at the half year end was $5.6m (compared to net cash of $11.3m at HY14) due to the one off store set up costs for the launch of 13 Brooks Brothers and the 3 new GAP stores, as well as the associated investment in inventory. We will focus on extracting value from these investments to strengthen the balance sheet as we cycle these events.

Despite uncertain consumer confidence and economic conditions, we expect modest EBIT growth in the second half of FY15 compared to H2-14, as we gain traction with our strategy to elevate the Oroton brand, including growing margin, with reduced discounting, a return to growth in like for like sales and higher average selling prices.

In GAP and Brooks Brothers, we expect reduced losses compared to H2-14 as the brands benefit from improved margin and careful management of their cost base, including supply chain efficiencies. In addition, now that we have been trading 12 months we expect to reap the benefits of cycling the initial start up costs and events from the launch of these brands.

The first six weeks of trade for H2-15 are in line with our expectations.

Whilst the Board has made a pragmatic decision to reduce the interim fully franked dividend declared to 4.5 cps (HY14 dividend: 8 cps) the payout ratio to earnings has been increased during this period of transition for the Group".

	HY15 $ M	HY14 $ M	Change
Revenue	**66.8**	**62.9**	***+6%***
Net Margin (%)	***62.7%***	***63.7%***	
Total Expenses (%)	***55.2%***	***50.8%***	
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**7.1**	***10.7***	***-34%***
Underlying Earnings Before Interest and Tax (EBIT) ***(1)***	**4.8**	**8.0**	***-40%***
Underlying EBIT Margin	***7.2%***	***12.7%***	
Share of Equity Accounted Brooks Brothers JV Loss	**(1.0)**	**(0.2)**	
Underlying EBIT ***(1)*** **excluding share of Brooks Brothers Loss**	**5.8**	**8.2**	***-30%***
Reported Earnings Before Interest and Tax (EBIT)	**4.5**	**8.0**	***-44%***
Net Profit After Tax (NPAT)	**2.2**	**5.1**	***-57%***
Basic Earnings Per Share (EPS) (Cents)	**5.4**	**12.4**	***-57%***
Interim Dividend Per Share (DPS) (Cents – Fully franked) ***(2)***	***4.5***	**8.0**	***-44%***
Like for Like Sales Growth (%) ***Group*** *Oroton* *GAP*	 **-6.1%** -6.5% -0.9%	 **+3.0%** +3.0% n/a	
Net Cash / (Debt)	**(5.6)**	**11.3** (HY14) **10.1** (FY14)	
No. of Stores ***(3)*** ***Group*** *Oroton* *GAP* *Brooks Brothers*	 **90** 71(4) 6 13	 **84** 71(4) 3 10	 ***+ 6 stores*** *-* *+ 3 stores* *+ 3 stores*

(1) Underlying results have been adjusted for the significant item relating to the onerous lease provision of $0.3m for the closure of the Hong Kong store.
(2) The record date for determining the dividend entitlement is 8th April 2015 and payment will be made on 22nd April 2015.
(3) FY14 store numbers are as at year end
(4) Includes 2 franchised stores in Dubai (H1-14) and Nanjing, China (H1-15)

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