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# Deus ex Machina. It's The Link, There's No Thing

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# Introduction

In March 2020 Deus ex Machina's (Deus) President and CEO Federico Minoli, a veteran of the sport and luxury industries with top roles at Benetton, Ducati, Dainese, Bally and POC Sports was confined by the Covid pandemic to his house in Boston.

His bichon frisé Pepsi was looking at him anxiously, sensing that something was troubling the mind of her loving owner.

Minoli was indeed struggling to imagine how to face the insidious threat that Covid-19 posed to Deus, a brand that he, together with a group of friends, had acquired only three years earlier.

Minoli and friends had been attracted to Deus by the transformative potential of the brand and had imagined a worldwide expansion of a business still in its infancy.

What is Deus Ex Machina? Is it a motorcycle and surfboard company? An apparel Company? A new concept of restaurant? An art gallery? A content producer?

Deus is none of these things and at the same time it is all of them.

Deus is a philosophy of life, an incubator of creativity, a generator of culture. It is anchored by Deus Temples, large venues that bring people together to enjoy music, food, shopping, and events – to watch a custom motorcycle take shape, or simply to feel relaxed and happy.

It is the magic of a Temple that sets Deus apart and allows significant sales of Deus' products also indirectly through a worldwide multi-channel distribution.

The strategic issues around the post-Covid future of Deus were complex and controversial, and Minoli struggled to find the right answers.

1. Is Deus' community, culture, marketing and customer experience going to be relevant in a post-Covid world? Or will it suffer from changes in customers' behaviour triggered by the pandemic?
2. Are the financial issues experienced by Temples contingent upon Covid or are they signals of a complex, flawed business with too much investment and too many fixed costs?
3. Will therefore, a strategy centered on the role of Temples as a source of direct and indirect revenue be capable of generating profitable growth?
4. Conversely, would Deus be better off focusing on the profitable apparel business, perhaps accelerating the ramp-up of E-commerce efforts? Would a simplified, more traditional business provide a better opportunity for profitable growth, despite being different from the original shareholders' dream?

Deus Video: https://www.youtube.com/watch?v=NsguBK7BCek

# The Adventure Begins

Deus Ex Machina began, as so many things do in life, by coincidence. Minoli was at Ducati, at the time owned by TPG (Texas Pacific Group), a West Coast Private Equity fund, headed by David Bonderman. David, on vacation in Bali, stumbled upon the Deus Temple in Canggu and loved the place. He saw some motorcycles and made an easy connection: motorcycle – Ducati – Minoli. He made a call to Federico to find out about this Deus thing and to buy it.

So, Minoli enlisted a couple of Ducati engineers and a cousin of his, a brand expert and motorcycle fan, the only one in the group who knew about Deus and loved it. In January 2015, they travelled all the way to Sydney for a meeting with Dare Jennings, Deus' owner/founder, to discuss the possibility of buying the worldwide business

They loved Deus Sydney, the location, the employees, the vibe. However, as soon as they started to ask about numbers, financial data and the like, they realized that they were trying to engage the Australian friends in a conversation that had little interest or meaning for them... and that was the end of the TPG Deus acquisition.

But their love and excitement for Deus was sincere and since Deus had no presence in Italy, the team pulled together a group of friends and obtained the license to open a Deus Temple in Milano.

# Rationale for Investing in Deus

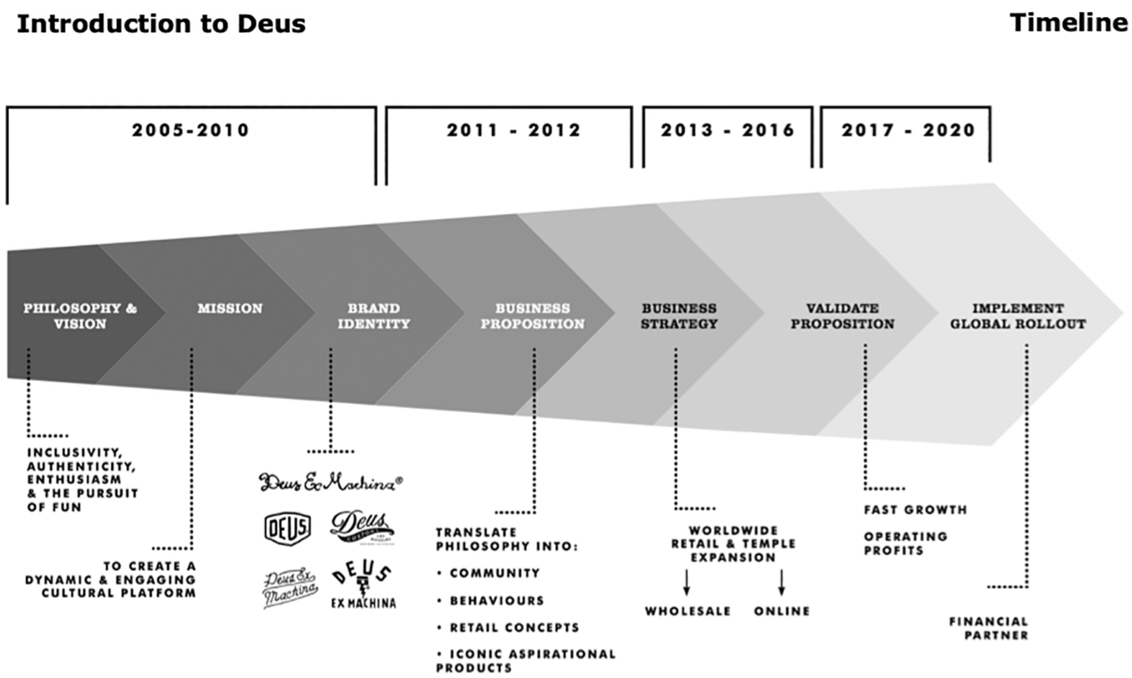
A couple of years later, Deus Australia ran into financial troubles and Minoli and friends were offered the opportunity to buy the majority stake in the company.

It was not an easy investment decision: financial and market information were scarce and unreliable, a thorough due diligence impossible. The Australian management had been successful in developing a philosophy and a brand but appeared to have limited interest or ability to build a growing profitable business. Inevitably, all financial investors had passed on the opportunity, as TPG had done a few years previously.

In the end – September 2017 – the group acquired Deus because they believed they could transform a dream into a business. They believed they could use the disruptive potential of Deus' complex concept to create a competitive advantage versus other brands unwilling to adapt to the retail revolution that was in progress. They were not excessively concerned by the obvious lack of financial controls, the tentative organization, the non-existent systems, or the primitive distribution network. They considered all of these operational issues to be the sort of problems they had encountered and fixed elsewhere in their careers.

Although emotions played an important role, the acquisition was justified by a growth plan founded on three powerful elements and on the assumption (probably overly optimistic) that all the operational issues could be quickly fixed.

1. The original Deus Vision developed by Deus' founders: Dare Jennings and Carby Tuckwell.
2. The appeal and growth opportunity offered by the innovative and flexible Deus community.
3. The disruptive potential of Deus' Temple Retail Concept and its ability to foster a successful, multichannel revenue stream.



### *The Vision*

Deus' vision is best explained by its founder, Dare Jennings:

> *"From its inception, my idea with Deus ex Machina was to create a brand that could take a legitimate position in the Action Sports Industry. I had spent 15 years in the industry, and watched as it became increasingly corporate, and thus stale and repetitive. My feeling was that anyone who could create a brand with a fresh and original approach would be able to do very well from the enterprise. I had always disliked the way that Big Surf had sold surfing as if it was a fundamentalist religion. What I wanted was a "sum of the parts" brand. A brand that would combine a group of passionately pursued activities, and hopefully create a much more interesting and bigger idea. We set about convincing skeptical onlookers that there was nothing wrong with combining customized motorcycles, single speed bicycles, old school surfing, fashionable clothes, art and great food. When asked what I thought we were doing, I would reply that Deus was either a grand folly or an incredibly good idea. After much hard work and significant investment I think we are out of Grand Folly territory and can now claim Deus as an incredibly good idea."*

Minoli liked Dare's vision of a brand open to different passions, flexible enough to experiment with new customers, formats, ideas and products. He saw it as a welcome antidote to the boring uniformity of product, stores, messages offered by all competitors in every corner of the globe, from Milan to Bali to LA.

Minoli believed that an offering focused on the vibe of each location and local community could be unpredictable, interesting to experience, and find a successful space in the market.

**Introduction to Deus** **Vision**

*"The Deus philosophy recalls an era before the various pursuits of fun – motorcycling, surfing, skateboarding, whatever – were marketed into fundamentalist factions.*

*All are welcomed under the Deus roof, where there's simply respect for the honesty and enjoyment of the machine.*

*Inclusiveness, authenticity, enthusiasm. It's a simple and sincere pitch that has winged Deus ex Machina across the world.*

*Having built a flexible business with an infectious philosophy of enthusiasm at its core Deus ex Machina says simply there's no 'right way' to do individualism, its all the same juice."*

(Carby Tuckwell, Founder & Art Director)

### *Deus Community*

Minoli was familiar with the concept and strength of brand community and fully convinced of the potential of community marketing.

He had pioneered the concept in the mid-1990s as CEO of Ducati, where he had successfully relaunched the company by transforming a functional product like the motorcycle, defined by its measurable performances (speed-power-price), into an iconic product defined by unique features (Desmo trellis frame – Italian style – Engine's sound) that set it apart from lower price Japanese competitors.

A self-selected group of people, attracted by the iconic value of Ducati, started sharing the same experiences and emotions and soon formed a community of enthusiasts that gave them an identity distinct from the larger crowd of motorcyclists.

Minoli recognized, nurtured, and expanded this community, and provided content and events to the Ducatisti. Ducati's neo-tribal marketing was born and carried Ducati all the way to a successful Wall Street IPO (Initial Public Offering).

Time had passed, however, and Minoli believed that two troubling issues had emerged with brand communities:

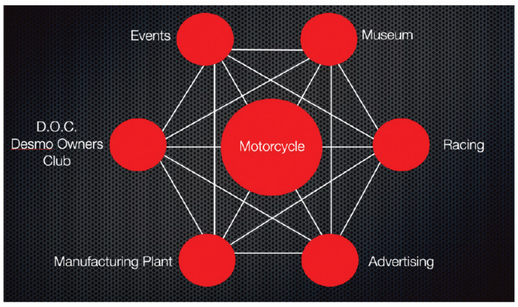
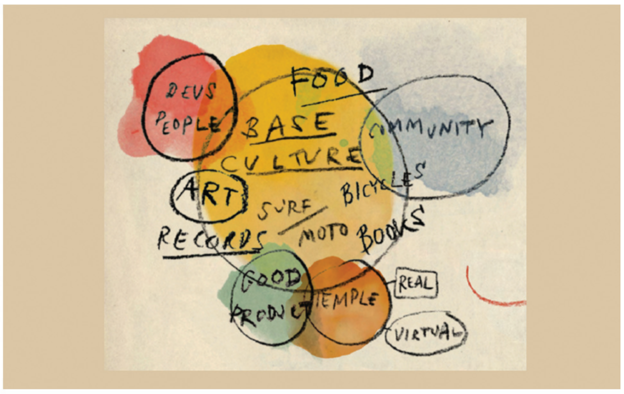
- A community strictly centered around a specific product had obvious risks and limitations: "What if the motorcycle no longer appeals to people?" as was happening with younger customers.
- Social media had created opportunities to expand and enrich the concept of community but at the same time could encourage artificial and superficial relationships and interests that could prove fickle and misleading.

Minoli thought, however, that the Deus community would not experience these troubling issues and would keep its potential intact.

As a matter of fact Minoli thought that Deus might be a contemporary evolution of the brand community of the past, firmly anchored by the allegiance to a distinctive product.

Deus people shared a passion and a devotion to a lifestyle and culture, to a distinctive way of using, enjoying and consuming several products quite different from each other and not always carrying the Deus brand name.

The way Deus and Ducati graphically represented their worlds illustrates the different type of communities:

| **World of Ducati** | **World of Deus** |
|---|---|
|  |  |
| Product at the centre. | Culture at the centre. |
| The link to the product builds the community | Allegiance to the culture creates the community |
| IT IS THE LINK NOT THE THING | IT IS THE LINK, THERE IS NO THING |





According to Minoli, Deus' community had the advantage of being open and flexible and therefore could easily accommodate new products and new passions, as long as the right cultural angle could be identified.

When market trends shifted from motorcycles to bicycles Deus had no problem including the bicycling community, their passion and activities under its umbrella (Ducati obviously could not). The right cultural angle was found promoting and embracing sectors of the market particularly compatible with Deus' culture (fixed gear, vintage, customised bicycles).

Defining the key elements of a lifestyle and culture could be more vague and difficult than identifying the key characteristics of an iconic product.

Carby Tuckwell, Deus' Creative Director, however codified the guiding principles that define Deus' culture and therefore had to permeate Deus' products, activities, events and look:

**1. AUTHENTICITY**
No artifice or pretense, we practise what we preach

**2. MASCULINITY**
Think warrior poet, not boofhead machismo

**3. CREATIVITY**
A truely novel idea will never fail
(always keep them guessing)

**4. COURAGE (OF CONVICTION)**
To back oneself is the first half of success

**5. INTELLIGENCE**
Knowledge is our currency, wit is our sword

**6. FIT FOR PURPOSE**
Nothing superfluous and everything considered

**7. UNAPOLOGETIC**
No permission required

**8. AWARENESS OF SELF**
Know your onions

**9. BOYISH ENTHUSIASM**
The puerile life - 'aint we got fun'

**10. QUALITY**
Of life should be reflected in quality of product

Deus' ability to adapt and include, without losing the strength and appeal of its culture and community, overcame the limitations of a traditional brand community and seemed to offer unlimited growth potential.

### *The Temple*

Deus provided its community and its fans with a house and called it a "Temple". Temples allowed the Deus virtual community to encounter and mix with the real community, creating genuine, deep and long-lasting connections. In 2020 there were 10 of them across the world, some directly owned, some licensed to third parties.

Each Temple was different from the others. Each had a carefully selected name, differing decor, and offered a different mix of products, but all shared the same culture of openness, friendship, easiness, and inclusion. Things happened in a Temple, making each visit an experience to share.

In Bali, the Deus "Temple of Enthusiasm" hosted the shaping bays of the island's best shapers, heroes of the local and international surfing community. In Milano, the Deus "Portal of Possibilities" featured the best "mixologists" in town whose creative aperitifs attracted a crowd of loyal followers. In Venice Beach, the "Emporium of Post-Modern Activities" hosted the garage where Michael "Woolie" Woolaway built his amazing customized motorcycles for the likes of Orlando Bloom, Bruce Springsteen and Ryan Reynolds. In Tokyo, the Deus "Residence of Impermanence" catered to the cappuccino crowd, and so on...

Each Temple was the hub of Deus activities, events, and gatherings that, in turn, became marketing content for Deus' presence on and offline.

**Introduction to Deus** **Retail Concept: Temple**


Deus "Temples" are a new and compelling retailing concept. They aggregate people in a relaxed/artistic environment to eat, drink and shop while experiencing such activities as motorcycle/bicycle customizing and surfboard shaping.
Deus Temples typically utilize lightly renovated post-industrial large spaces located in upcoming areas outside the main shopping city centre.

Minoli was impressed by the concept of the Temple, and convinced it could be the retail store of the future, the holy grail capable of fighting the doomsday scenario brought to the retail industry by the Amazons of this world. After all, how can Amazon sell experience?

He had attended conferences, read books, conducted interviews, and discussed development of retail networks at length with Enrico D'Onofrio, friend and Deus investor, with extensive experience on commercial distribution at Harley Davidson, MV Agusta and the like. Everywhere, people were fantasizing about the store of the future:

> "*A physical space to underpin a community of enthusiasts, a hub around which everything revolves*." (Angela Ahrendts, former GM Apple Retail)

> "*A place to do things that Amazon cannot, namely provide an immersive brand experience, a brand theatre, to promote interaction with the product and the brand, a kind of performance art*." (Mark Pickington, *Retail Therapy*, Bloomsbury)

> "*A third space between home and work, a place that moved beyond the idea of just a place where you buy things, but where people get together for the pleasure of enjoyable company*." (Roy Oldenburg, *Great Good Places*, Da Capo Press)

While everybody else was still dreaming of it, Minoli believed that Deus already had the "store of the future" and he was determined to make it the center-piece of Deus' growth plan, despite being well aware of the risks of the Temple strategy.

# Pre-Covid Challenges

Until Covid disrupted business worldwide in March 2020, Deus was on a solid sales growth trajectory, but failed to deliver profit and cash flow [see annex 6 Financial data: section a] sufficient to continue investing for growth. Minoli was therefore critically reconsidering some of the assumptions made at the time of the acquisition.

***The Community***

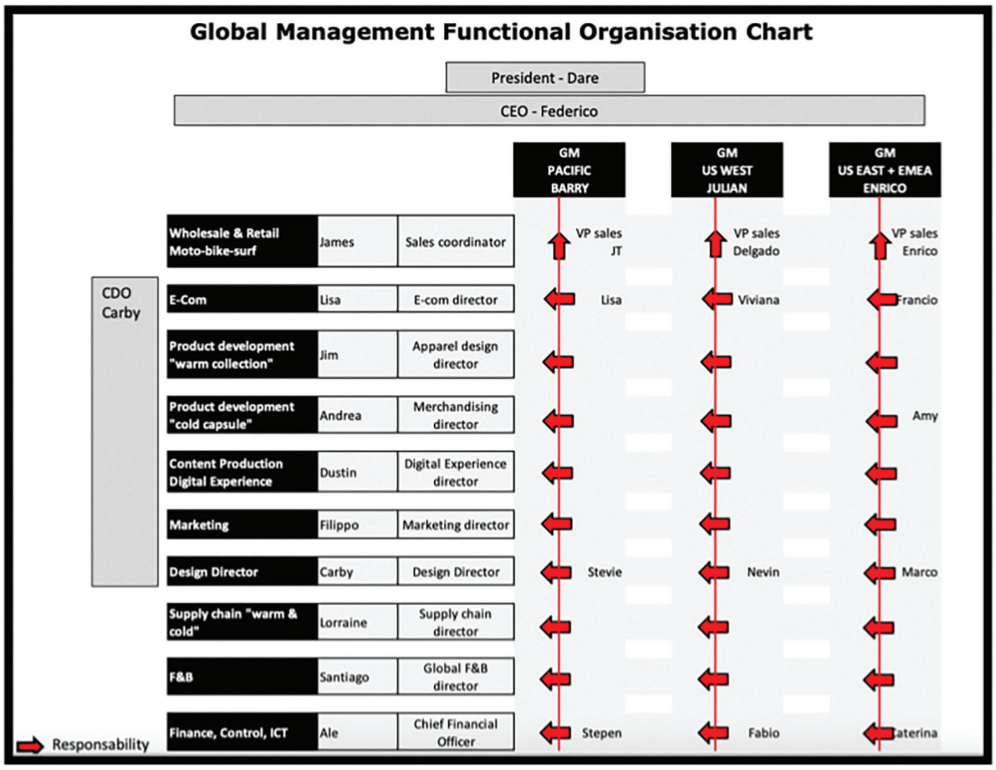
A. The Deus community had indeed proved to be enthusiastic, enduring and resilient to changes in the market. Transforming the allegiance to Deus' culture into profitable sales, however, was proving more challenging than anticipated.
Despite the fact that Deus' culture/community was anchored by a variety of products and activities, sales were almost exclusively generated by apparel and F&B.
[see attached Financial data]

Minoli had to admit that motorcycle building, surfboard shaping, art, music, events, demanded considerable financial and organizational resources but could not be transformed into a self-standing business. They ended up being promotional activities providing support to the apparel and the food business.

Minoli was asking himself: "Are all the activities and events carried out by Deus essential to Deus' culture and to business and to its growth?"

B. The Deus community's flexibility and adaptability to accommodate different passions, activities and products proved a very powerful tool for international expansion as hoped at the time of acquisition.
Under Deus' "cultural" umbrella, different areas of the world developed their versions of Deus' community modelled on the local needs, passions and favourite activities.
The organisational and financial challenge was how to reconcile the need of local content and the need to avoid a dilution of Deus' culture.
Minoli and the team structured Deus' governance along the lines of a matrix organisation, with very diverse and dispersed teams and offices located across the globe: Sydney, Bali, Milan and Los Angeles.

## ORGANISATION




Area General Managers, reporting to the CEO, were responsible for the local P/L and for any activity peculiar to their area.

Functional global managers, also reporting to the CEO, were responsible for guaranteeing the integrity of Deus' culture by providing global services (design, product development, global events, sourcing) to the different areas.

Minoli thought that the results of the new organisation were mixed. Communication and global coordination were made difficult by the geographical dispersion and the multiple businesses and cultural differences. In addition, the overlap of global and local management proved too costly for the limited size of the business.

Would it be preferable to simplify Deus' organization, limiting local flexibility, activities, and events, and reinstating a more centralised global governance?

### *The Temple*

The Temple proved, at least until Covid, to be an innovative, desirable and successful concept, as proven by the dramatic international growth of the Temple network.


Minoli continued to be convinced that a strategy based on Temple expansion would set Deus apart from competition and create a formidable tool to sustain a multichannel distribution strategy.

On the other hand, the post-acquisition experience showed uneven financial performances of Temples [see annex 6: Financial data: section c]. The mixed results were attributed to a relatively high initial investment and to the strategically planned individualism of each Temple.

Lack of common standards in terms of footprint, decor, product offering, activities and management generated an interesting new and unique experience to the local Deus community but preempted economy of scale, best practice sharing and predictable results.

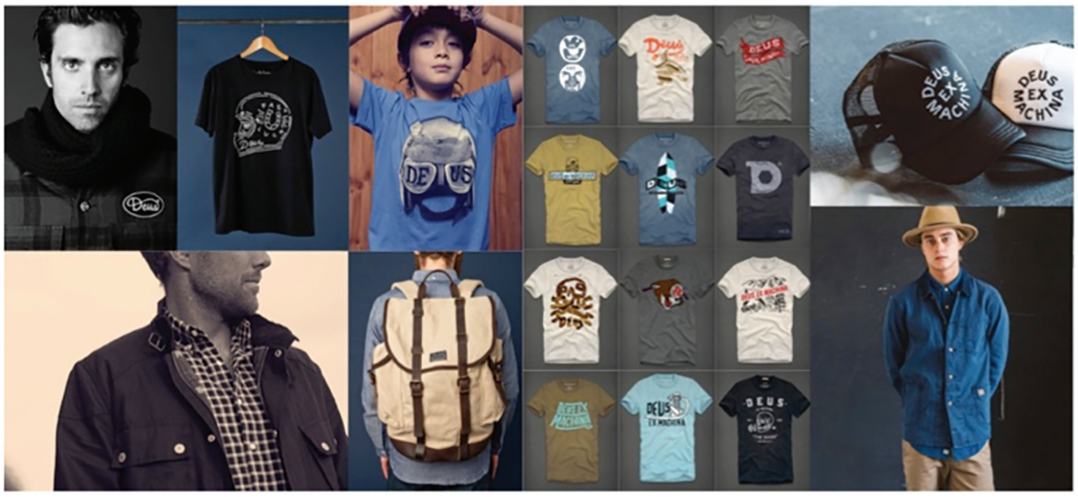
Minoli was convinced that the Temple was the centerpiece of Deus' uniqueness and that any problems they might have encountered were due to executional issues.

Other shareholders were doubting that the complex and diverse business present in a Temple could be managed directly and were pushing for a much simplified Temple offering and/or for limiting Deus' direct managerial and financial involvement in Temples.

*Apparel*

In FY 2020 (pro forma) apparel accounted for 70% of Deus sales and for over 100% of Deus' profitability (contribution) [see annex 6: Financial data: section a].

**Introduction to Deus** **Apparel**




Deus' apparel constitutes a genuine lifestyle statement inspired by moto, surf, and bicycle experiences translated into compelling graphics.
Together with food & beverage the apparel is the "business anchor" of Deus retail concept.

Deus' apparel distribution outside Australia, Indonesia and US was originally in the hands of importers. After the acquisition Deus developed a complex multichannel distribution strategy. Each channel appeared to have differing profitability, growth opportunity and contribution to the strengthening of Deus' culture. [see annex 6: Financial data: section b]

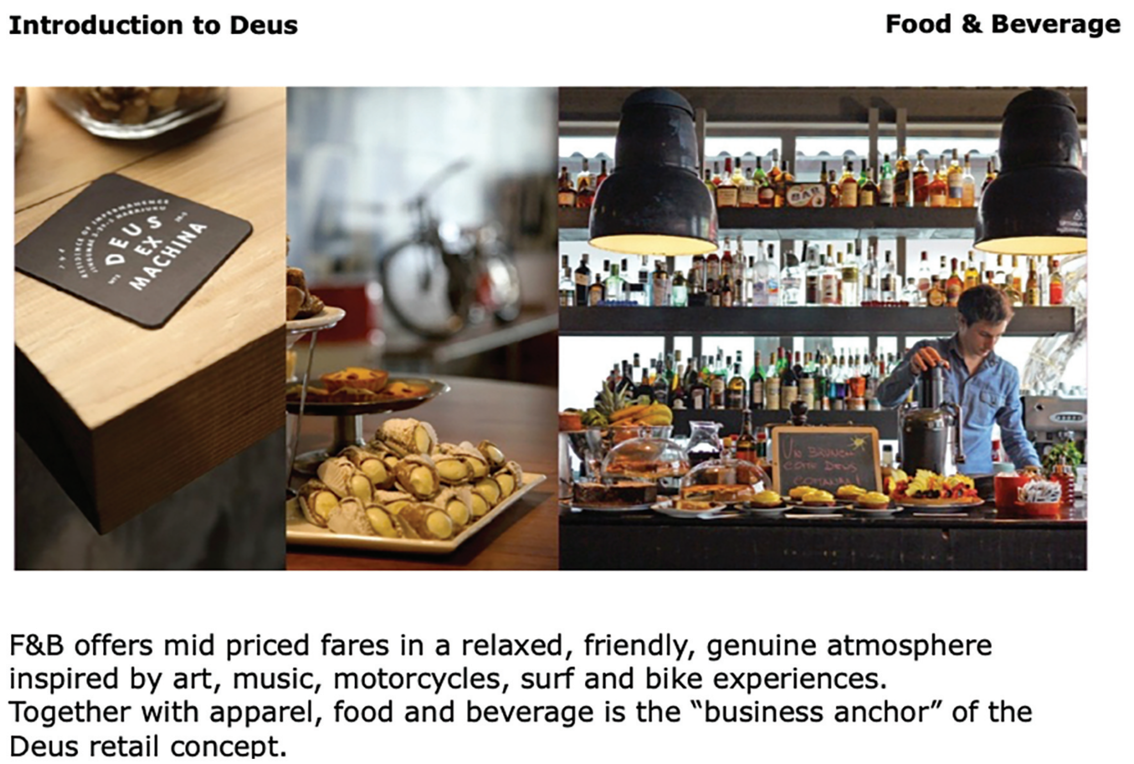
The apparel offering was equally complex. It consisted of two offerings for the Northern Hemisphere and four offerings for the Southern Hemisphere requiring the development of way too many SKUs. Despite the extensive offering, sales were concentrated in two major merchandise categories (caps and T-shirts) with other categories' SKUs often failing to reach MOQ (minimum order quantity) or generating heavy excess inventory. [see annex 6: Financial data: section b]

Shareholders were urging management to focus attention and financial effort on apparel, even at the risk of decreasing efforts in other areas of the business (Temples, events, activities, events, culture-building, other products), but Minoli thought that a decisive shift of focus might be a simplistic strategic decision.

- Apparel seemed to be particularly successful in a Deus retail environment (Temples and Deus stores) and on Deus' own E-com platform.
- Minoli thought that the link to Deus' community culture and to the Temple experience, rather than the intrinsic appeal of Deus' collection, was the root cause of apparel success, and feared that Deus' apparel was not yet a self-standing, iconic, well-identified, balanced offering capable of having an intrinsic, product-related competitive advantage.
- A collection with more personality and character, better reflecting the tenets of Deus' culture, could obviously be very desirable and increase apparel success, but its development could be a crapshoot and require a large, risky investment.
- Finally, while Deus' apparel sales in multi-brand stores were still significant, Minoli was doubtful of the long term viability of that type of distribution

*Food and Beverage*

In FY 2020 (pro forma) [see annex 6: Financial data: section a], food and beverage sold in Deus Temples accounted for 27% of total Deus' sales and were generating a loss at the contribution level.



F&B was also sold in licensed (owned by a third party) Temples generating a royalty important as an EBITDA contribution but hardly registering in Deus' total sales.

Minoli was convinced that F&B was an essential part of the Temple experience and that the lack of profitability was primarily due to the losses of Temples newly opened in 2020. At the same time, he struggled to understand the wildly different economic performances of individual establishments.

In the absence of centrally mandated standards capable of guaranteeing significant economy of scale and a quick learning curve for new openings, it looked like the profitability of a Deus restaurant was largely dependent upon the professionalism and entrepreneurism of local managers.

If that was the case, rather than questioning the overall Temple strategy, could it be enough to selectively license restaurants in Temples to third party professionals capable of running a Deus restaurant as if it were independently owned?

### *Activities and Events*

Deus' activities and events were the key generators of fun and excitement for Temples' customers and for the Deus community at large.

Activities (surfboard shaping, custom building for bikes and motorcycles, barber shop, tattoo parlour) made Deus' Temples different and cool and a testimonial of the authenticity of Deus' culture.

Activities, however, absorbed significant management attention but generated marginal sales and were at best breaking even.

Deus events were too many to count. They were both global (Bike Build Off, 9 Ft and Single, Swank Rally) and local (Wheels and Waves, Sardinia Rally, Cycle Wine, Cappuccino Contest, In Dust We Trust, film festivals, music nights, art exhibitions, etc.).

Events were great fun and played an important role both in strengthening the sense of community and the passion for the brand, and in providing wonderful content to boost Deus' presence on social media either directly or indirectly through individual community members.

Even before Covid, activities and events were critically scrutinized to understand their role in pursuing Deus' strategy and their direct or indirect contribution to Deus' revenues and profit.

Activities, all artisanal by nature, were unlikely to ever be relevant for Deus' revenues or profit and yet added significant complexity to Temple management and to a Temple centered strategy.

As a consequence:

- Was it worth pursuing all Deus activities?
- Would a decrease in the activity effort harm in any significant way the Temple experience?
- Was it possible/preferable to offer Temple space to external artisans pursuing Deus compatible activities rather than assuming direct responsibility?

Events posed the same question in terms of relevance for Deus' Temple experience and for Deus' community but seemed to offer some opportunities as well:

- Could events be increasingly moved online reducing costs and increasing reach?
- Could events request a payment from participants?
- Could events support a membership scheme?
- Finally, since events were successful in generating interesting and exciting online presence and content, could we more directly link online content with online apparel sales?

# The Impact of Covid-19


The Covid pandemic forced all the Deus Temples, shops, and all indirect distributors' stores to close in the space of one month. It preempted all gatherings, events, parties, and sports, thus canceling any Deus marketing or community initiatives. The impact on Deus P/L was devastating both in FY 2020 and 2021 and severely delayed growth expectation for the immediate future. [see annex 6: Financial data: section e].

Deus was therefore facing both an immediate threat to its survival, and longer term philosophical and strategic challenges in a post-Covid environment difficult to predict.

Minoli and his team were in full agreement on an immediate, drastic restructuring plan to tackle the emergency. Revenues could not be protected, except online, and therefore Deus' cost basis had to be drastically pared down, in order to defend profitability as much as possible. This was done through painful sacrifices, personnel reduction, limited purchases, and eliminating marketing and administrative expenses. It was also obvious that, despite these efforts, the closure of restaurants had deprived Deus of its source of positive working capital, traditionally used to offset the negative working capital generated by all other business.

Minoli and the team managed to present the contingency plan to shareholders who agreed to sustain Deus through the crisis with a substantial capital increase.

# Post-Covid Strategic Choices

By April 2021, from his vantage point in Boston, Minoli could see the pandemic receding, and business gradually reopening.

At Deus, the restructuring plan had allowed for some breathing space, but a decision on future strategic direction was imperative and impacted by several questions old and new that had to be answered.

1. Is Deus' community, culture, marketing and customer experience going to be relevant in a post-Covid world? Or will it suffer from changes in customers' behavior triggered by the pandemic?
   Minoli took comfort in the optimistic description of a post-pandemic city offered by Fareed Zakaria, a political commentator:

   > *"Rationalizations for city living vary – work, companionship, entertainment, culture, or all of the above. But beneath those outward reasons lie deep urges toward social interaction. Covid-19 will not short-circuit this hardwiring. In fact, the isolation of the lockdowns might have the opposite effect, reminding humans of that simple but profound insight – by nature, we are social animals."* (*Ten Lessons for a Post-Pandemic World*, W.W. Norton & Co., 2020)

   Some adjustments would have to be made. While Milano's Cyclework Temple (Milano 2), heavily dependent on office workers' lunch business, would likely fall victim to more widespread "smart-working," at least in principle, Deus Temples would remain an attractive gathering place.

Minoli knew that, even pre-Covid, building culture and community building was expensive, in terms of organization, events, and activities. The key would be how to strike the right balance between investment in culture and investment in business development.

2. Are the financial issues experienced by Temples entirely contingent upon Covid or are they signals of a complex, flawed business with too much investment and too many fixed costs?
   Minoli had no answer, because Covid had interrupted the all-important moment when the Temple strategy was being tested. Pre-Covid Temple financials were mixed and data from new Temples (Milano 2 and Amsterdam) hit by Covid restrictions were impossible to interpret.
3. Will therefore, a strategy centered on the role of Temples as a source of direct and indirect revenue be capable of generating profitable growth?
   On the one hand, Minoli was hesitant to continue opening Deus-owned Temples without the support of conclusive data on their profitability.
   On the other hand, he was reluctant to put the brakes on Temple development, because he thought that there might be the opportunity to operate them in a different way, in terms of activities, organization, and ownership.
   Additionally, Covid had precipitated the crisis of traditional retail and increased the appeal of experiential shopping offered by Temples, thus increasing their competitive advantage.

4. Conversely, would Deus be better off focusing on the profitable apparel business, as suggested by the financial community, perhaps accelerating the ramp-up of E-commerce efforts? Would a simplified, more traditional business provide a better opportunity for profitable growth, despite being different from the original shareholders' dream?
   Minoli thought that apparel seemed to offer the opportunity for profitable development, but several issues still had to be addressed:
   First, could the apparel business be attractive on its own without Temple support and distribution?
   Second, what would be the preferred distribution channels to optimize profitable growth and to capitalize on Deus' community and culture?
   Third, what would be the role of Deus' own E-com and how could sales, community, and Temple be connected in a seamless cultural and multichannel experience?
   Finally, would downplaying the role of F&B in Deus-owned Temples exacerbate a severe working capital deficit?

# Conclusions

Minoli and friends acquired Deus with the intention of transforming a cultural movement into a sustainable and profitable growth business.

Despite several challenges and mistakes, the original strategy – based on vision, community, and Temples, as anchors for a multichannel distribution – had shown promising results. Then Covid came and the world changed. Pre-existing problems were no longer avoidable and insecurity about the future became a reality. Covid hit Deus hard in a moment of aggressive investment in its own retail network. The results of the new Temple openings were difficult to evaluate, as was the validity of the pre-Covid strategy. Past experience shows, however, that the unexpected can bring hope and that the challenges brought by change can open the door to new opportunities. Despite the temptation to prolong the search for the perfect answer through more financial analysis and consumer research, Minoli returned, as he often had, to the wise advice of Winnie the Pooh: "When you come to a fork in the road, take it.[1]

1. This quotes actually comes from Baseball hero Yogi Berra. But Minoli prefers the Winnie the Pooh version.

# Annex 6: Selected Financial Data

## A. Key P/L Indicators

## B. Simplified Distribution Channels Economics

## C. Owned Retail Economics: Temples and Store Drilldown

## D. Covid Impact

## Notes

- All figures in Mil AU$ (1 Euro = 1.5 AU$) unless otherwise indicated.
- Deus Fiscal Year (FY) runs from July to June. FY 2019 therefore runs from July 2018 to June 2019.
- Covid impact on Deus was severe starting in March 2020. Covid therefore impacted the last part of FY2020 and the full FY 2021.
- The Last Year with no Covid impact is FY 2019.
- In order to analyse the viability of Deus' business strategy in absence of Covi, it was created pro forma P/L for FY 2020 using actual data for first 3 quarters of the year and pre-Covid forecast for the last quarter. Pro forma P/L for FY2021 is based on 2021 budget approved before Covid.
- Separately the actual impact of Covid on FY 2020 and 2021 P/Ls are presented

To note that DEUS ex Machina has a Fiscal Year going from June 1st to July July 31st. Therefore, for example, FY 2019 means the period from July 2018 to June 2019.

# Annex 6: Selected Financial Data

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## D. Covid Impact

### Deus: Key P/L Historical Indicators

| (Mil AU$) | FY 2014 Actual | FY2015 Actual | FY 2016 Actual | FY2017 Actual | FY2018 Actual | FY2019 Actual | FY2020 Pro Forma* |
|---|---|---|---|---|---|---|---|
| Revenues | 15.8 | 24.0 | 31.0 | 33.7 | 39.0 | 50.8 | 57.7 |
| Gross Margin | 7.5 | 10.3 | 13.0 | 14.5 | 19.1 | 27.9 | 32.1 |
| | *48%* | *43%* | *42%* | *43%* | *49%* | *55%* | *56%* |
| Opex | 8.1 | 10.6 | 12.4 | 13.5 | 21.1 | 26.4 | 31.0 |
| | *51%* | *44%* | *40%* | *40%* | *54%* | *52%* | *54%* |
| EBITDA | -0.6 | -0.3 | 0.6 | 1.0 | -2.0 | 1.5 | 1.1 |
| | *-4%* | *-1%* | *2%* | *3%* | *-5%* | *3%* | *2%* |

Deus experienced a strong Revenues' growth from 2014 to 2019 with a CAGR of 26%. This growth, coupled with a Gross margin improvement from 48 to 55% of Revenues and flat Opex as a percentage of Revenues, allowed Deus to move from a loss of 0.6 Million AUD to a profit of 1.5 Million AUD. In 2020, Revenues grew by 44%. Gross Margin also increased to 56% of revenues. However, the raise in Opex by 2 p.p. made EBITDA lower its margin to 2% of Revenues (1.1 Million AUD).

* Gross Margin : Revenues less Direct Product Costs (Fabric, Duties, Shipping)
Opex : Operational Expenses i.e. Staff costs + Rental Costs + Marketing Expenses
Pro forma P/L based on actual data for first three quarters of the FY and forecast for last quarter

## Deus: Key P/L Indicators by Area: 2019 Actual

| (Mil AU$) | AU | Indo | USA | EMEA | Italy | Total |
|---|---|---|---|---|---|---|
| Revenues | 13.4 | 9.5 | 7.5 | 12.8 | 7.5 | 50.8 |
| Gross Profit | 7.0 | 5.5 | 4.2 | 6.2 | 5.0 | 27.9 |
| | *53%* | *58%* | *57%* | *49%* | *68%* | *55%* |
| Opex (local) | 7.2 | 3.8 | 3.7 | 4.8 | 3.6 | 23.1 |
| | *54%* | *40%* | *49%* | *38%* | *48%* | *45%* |
| Contribution | -0.2 | 1.7 | 0.5 | 1.4 | 1.4 | 4.8 |
| | *-1%* | *18%* | *8%* | *11%* | *20%* | *10%* |
| Corporate Cost | | | | | | 3.3 |
| | | | | | | *7%* |
| EBITDA | | | | | | 1.5 |
| | | | | | | *3%* |

Australia was the largest Revenues area. Though, due to below average Gross Margin and heavy local Opex, it was the only region losing money. Indonesia was the star performer with healthy margin and low Opex.

Contribution measures the relative performance of each area geographically.

* OPEX (local): 23.1 Mil + OPEX (corporate) 3.3 = total OPEX 26.4

## Deus: P/L by Geographical Area: 2020 proforma

| (Mil AU$) | AU | Indo | USA | EMEA | Italy | Total |
|---|---|---|---|---|---|---|
| Revenues | 14.4 | 10.9 | 8.0 | 16.2 | 8.2 | 57.7 |
| Gross Profit | 8.2<br>*57%* | 6.3<br>*59%* | 4.9<br>*61%* | 8.1<br>*50%* | 4.6<br>*56%* | 32.1<br>*55%* |
| Opex (local) | 7.8<br>*54%* | 3.9<br>*36%* | 4.0<br>*50%* | 6.5<br>*40%* | 4.6<br>*56%* | 26.8<br>*46%* |
| Local Contribution | 0.4<br>*3%* | 2.4<br>*23%* | 0.9<br>*11%* | 1.6<br>*10%* | -<br>- | 5.3<br>*9%* |
| Corporate Cost | | | | | | 4.2<br>*7%* |
| EBITDA | | | | | | 1.1<br>*2%* |

In FY 2020, all Regions became profitable. Indonesia confirmed to be the #1 performer. The EMEA business continued on its strong growth path, delivering the highest Revenues level (to note, EMEA revenues were 4.0 million AUD in 2017).

* OPEX (local): 26.8 Mil + OPEX (corporate) 4.2 = total OPEX 31.0

# Deus: Economics by Product
(All channels)

| (Mil AU$) | FY 2019 Actual |  |  | FY2020 Pro forma |  |  |
|---|---|---|---|---|---|---|
|  | Revenues |  | Contribution | Revenues |  | Contribution |
| Apparel | 37.1 | 73% | 4.8 | 40.6 | 70% | 5.5 |
| Food & Beverage | 11.2 | 22% | - | 15.2 | 27% | -0.4 |
| Motorcycle | 0.7 | 1% | - | 0.7 | 1% | - |
| Other | 1.8 | 4% | - | 1.2 | 2% | - |
| Total | 50.8 | 100% | 4.8 | 57.7 | 100% | 5.1 |

The Apparel business represented the largest slice of the Revenues' pie, and the only one contributing to EBITDA

# Deus: Economics by Channel
(All products)*

|  | Direct Retail |  |  |  |  | Direct Wholesale |  |  | Indirect Wholesale | Total |
|---|---|---|---|---|---|---|---|---|---|---|
|  | *Temple* |  |  | *Store* | *Online* | *Licensed Temple* | *Licensed Store* | *Multibrand Store* | *Temple* |  |
|  | App | F/B | Tot | App | App | App | App | App | App | App |
| **2019 Actual** |  |  |  |  |  |  |  |  |  |  |
| Revenues | 10.8 | 11.2 | 22.0 | 2.2 | 4.7 | 0.5 | 0.5 | 12.1 | 6.3 | 48.3 |
| Contribution | 1.8 | - | 1.8 | 0.3 | 1.1 | - | - | 1.2 | 0.5 | 4.8 |
|  | *17%* | *n.s.* | *8%* | *14%* | *23%* | *n.s* | *n.s* | *10%* | *8%* | *10%* |
| **2020 Proforma** |  |  |  |  |  |  |  |  |  |  |
| Revenues | 11.6 | 15.2 | 26.8 | 2.0 | 6.7 | 0.7 | 0.9 | 13.4 | 5.4 | 55.8 |
| Contribution | 1.9 | -0.4 | 1.5 | 0.2 | 1.7 | - | 0.1 | 1.3 | 0.3 | 5.1 |
|  | *16%* | *n.s* | *6%* | *10%* | *25%* | *n.s* | *11%* | *10%* | *6%* | *9%* |

Revenues grew across the board, with Indirect Wholesale sliding down.

* 2019 excludes motorcycle & other with revenues of 2.5 and contribution of 0
* 2020 excludes motorcycle & other with revenues of 2.0 and contribution of 0

# Annex 6: Selected Financial Data

## A. Key P/L Indicators

## B. Simplified Distribution Channels Economics

## C. Owned Retail Economics: Temples and Store Drilldown

## D. Covid Impact

### Deus Distribution Channels: Simplified Outline

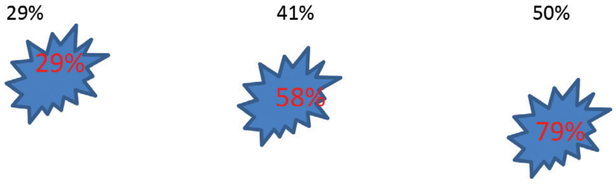
| | | | |
|---|---|---|---|
| **Direct Retail (Apparel & Cafe)** | Owned Temples | Cafè (F&B)<br>Apparel<br>Other | Deus owns and operates directly Temples-stores-Ecom<br>Deus P/L includes all value added (margins) from supplier to final customer<br>Deus P/L includes all the cost incurred along the value chain |
| | Owned Store | Apparel only | |
| **Online (Apparel only)** | Owned Site | Apparel only | |
| **Direct Wholesale (Apparel only)** | Licensed Temples | F&B * (royalty only)<br>Apparel | Licensed Temples-stores and multi brand stores are owned and operated by third party investors.<br>Deus P/L includes value added (margin) from supplier to the store but not from store to customer (retail margin)<br>Deus P/L includes all costs but for store costs |
| | Licensed Store | Apparel | |
| | Multibrand Stores | Apparel | |
| **Indirect Wholesale (Apparel only)** | Licensed Temple | F&B* (royalties only)<br>Apparel | Licensed Temple-store-multibrand stores are owned and operated by third party.<br>Stores are supplied by third party wholesaler<br>Deus P/L includes value added from supplier to wholesaler and relevant costs |
| | Licensed Stores | | |
| | Multibrand | | |
| | Stores | | |

* Royalties generated by licensed Temples are negligible

# Deus Distribution Distribution Channels: Value Chain – Pricing Build up

| | Supplier FOB | Importer | Distributor | Retail | State TAX |
|---|---|---|---|---|---|
| Price Index | 100 | 140 | 238 | 476 | 580 |
| Multiplier factor | | 1.40 | 1.70 | 2.00 | 1.22 |
| Mark–up | | 40% | 70% | 100% | 22% |
| First Margin* | | 29% | 41% | 50% | 18% |

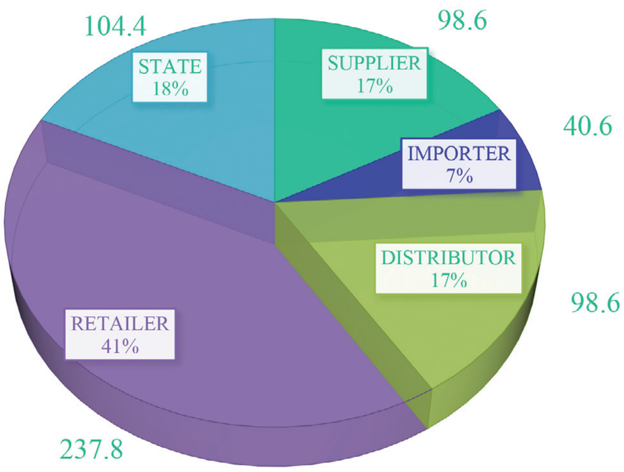
- Importer
- Wholesale direct
- Retail direct




* First Margin = Revenues less Product Cost

## The Retail Value Pie - Revenues

TOTAL: 580



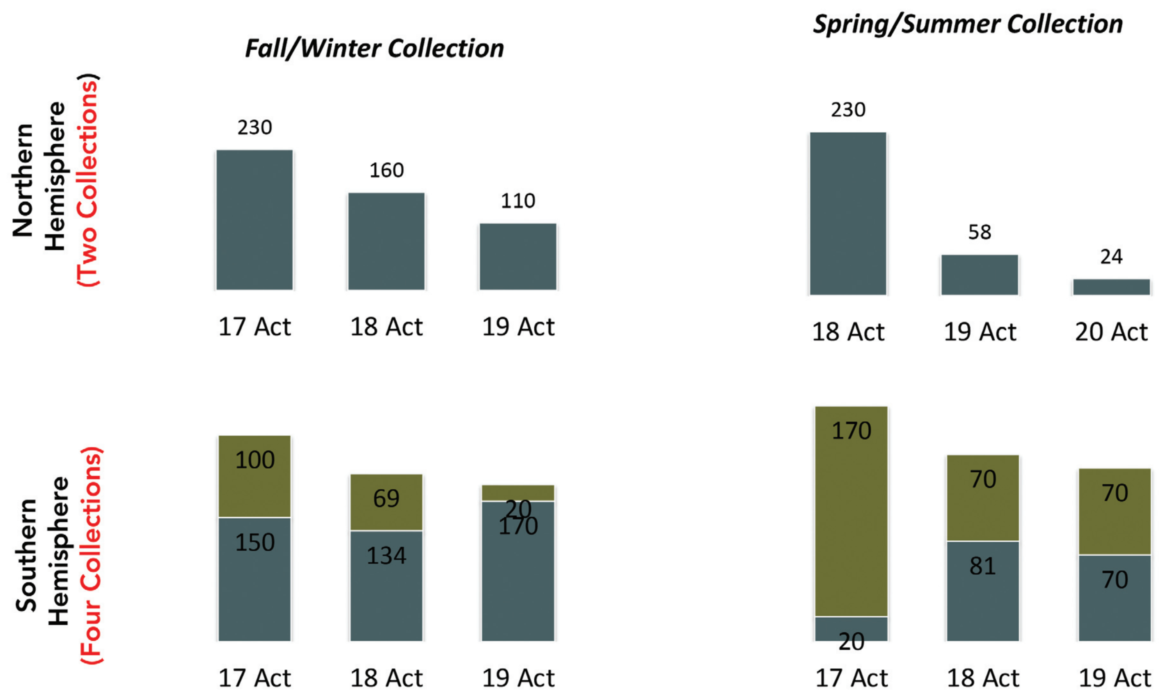
# Deus P/L: Apparel economics by Channel (2019 Act)

| | Direct Retail | | | Direct Wholesale | | | Indirect Wholesale | Total |
|---|---|---|---|---|---|---|---|---|
| *(Mil AU$)* | *Temple (Apparel only)* | *Store* | *Online* | *Licensed Temple* | *Licensed Store* | *Multibrand Store* | *Importers* | *Apparel* |
| Revenues | 10.8 | 2.2 | 4.7 | 0.5 | 0.5 | 12.1 | 6.3 | 37.1 |
| First Margin % (*) | 79% | 79% | 79% | 48% | 52% | 58% | 29% | |
| Actual Gross Margin % | 60% | 53% | 62% | 40% | 44% | 45% | 18% | |
| Opex % | 43% | 39% | 38% | 28% | 26% | 35% | 10% | |
| Contribution Milion | 1.7 | 0.3 | 1.1 | - | - | 1.2 | 0.5 | 4.8 |
| Contribution to corporate cost % | 17% | 14% | 24% | 12% | 18% | 10% | 8% | 13% |

Apparel business is the key contributor of the Deus business.

* First Margin : Revenues less Fabric Costs
Gross Margin : Revenues less Direct Product Costs (Fabric, Duties, Shipping)
Opex : Operational Expenses i.e. Staff costs + Rental Costs + Marketing Expenses

## Complexity of Apparel Offering
(# SKUs)



# Annex 6: Selected Financial Data

## A. Key P/L Indicators

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## D. Covid Impact

### Deus: Owned Temple Economics 2017,2019,2020

| | 2017 | | | 2019 | | | 2020 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Direct Temple (4)** | | | **Direct Temple (5)** | | | **Direct Temple (7)** | | |
| *(Mil AU$)* | *F&B* | *Apparel* | *Total* | *F&B* | *Apparel* | *Total* | *F&B* | *Apparel* | *Total* |
| Revenues | 10.0 | 7.0 | 17.0 | 13.3 | 8.7 | 22.0 | 15.2 | 11.5 | 26.7 |
| Gross Margin | 5.9 | 4.2 | 10.1 | 7.7 | 5.2 | 12.9 | 9.2 | 6.6 | 15.8 |
| | *59%* | *60%* | *59%* | *58%* | *60%* | *59%* | *60%* | *57%* | *59%* |
| Opex | 4.9 | 2.4 | 7.3 | 7.8 | 3.3 | 11.1 | 9.9 | 4.4 | 14.3 |
| | *49%* | *39%* | *46%* | *59%* | *38%* | *50%* | *65%* | *38%* | *54%* |
| Staff | 3.4 | 1.2 | 4.6 | 5.6 | 1.6 | 7.2 | 7.0 | 2.3 | 9.3 |
| Rent | 0.6 | 0.7 | 1.2 | 0.9 | 1.0 | 1.9 | 1.5 | 1.1 | 2.6 |
| Other | 0.9 | 0.6 | 1.5 | 1.3 | 0.7 | 2.0 | 1.4 | 1.0 | 2.4 |
| Contribution | 1.0 | 1.8 | 2.8 | -0.1 | 1.9 | 1.8 | -0.7 | 2.2 | 1.5 |
| | *10%* | *26%* | *16%* | *n.s.* | *22%* | *8%* | *n.s.* | *19%* | *6%* |

Temples' Revenues increased due to the opening of new Locations. However, initial start-up costs lowered contribution by almost a million AUD. Note how critical is the cost of Rent that went from 7% in 2017 to 9% in 2019 and finally to 10% of Revenues in 2020.

# Deus Owned Temples Economics: Development

(All products)*

| | SYD | Bali | LA | Milan 1 | Biarritz | Sub Tot | Milan 2 | Amster dam | Sub Tot | Grand Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Year opened: | 2006 | 2010 | 2012 | 2013 | 2019 | Old | 2020 | 2020 | New | |
| **Temple 2020 (7) Pro Forma** | | | | | | | | | | |
| Revenues | 6.0 | 6.5 | 3.7 | 7.2 | 0.6 | 24.0 | 1.7 | 1.0 | 2.7 | 26.7 |
| Contribution | 0.4<br>*6%* | 1.0<br>*15%* | 0.1<br>*3%* | 1.0<br>*14%* | -<br>*n.s* | 2.5<br>*10%* | -0.3<br>*n.s.* | -0.7<br>*n.s* | -1.0<br>*n.s.* | 1.5<br>*6%* |
| | Improved contribution from existing Temples, financed the opening of new ones. | | | | | | | | | |
| **Temple 2019 (5) Actual** | | | | | | | | | | |
| Revenues | 5.4 | 5.9 | 3.5 | 6.8 | 0.4 | 22.0 | - | - | | 22.0 |
| Contribution | -<br>*n.s* | 0.8<br>*13%* | -0.1<br>*n.s* | 1.2<br>*18%* | -0.1<br>*n.s.* | 1.8<br>*8%* | -<br>- | -<br>- | | 1.8<br>*8%* |
| | With the exception of Bali, all Temples decreased teir contribution. | | | | | | | | | |
| **Temple 2017 (4) Actual** | | | | | | | | | | |
| Revenues | 4.2 | 4.3 | 2.7 | 5.8 | | 17.0 | | | | 17.0 |
| Contribution | 0.5<br>*12%* | 0.5<br>*12%* | 0.4<br>*15%* | 1.4<br>*24%* | | 2.8<br>*16%* | | | | 2.8<br>*16%* |
| | Strong performance across the board. | | | | | | | | | |

# Deus Stores (apparel only) 2019 vs 2017

| (Mil AU$) | AU 2010 | AU 2016 | Bali 2018 | Bali 2018 | Sub Total Old | Bali 2019 | Madrid 2019 | Sub Tot | Grand Tot |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | | |
| Revenues | 0.3 | 0.1 | 0.9 | 0.6 | 1.9 | 0.2 | 0.1 | 0.3 | 2.2 |
| Contribution | - | - | 0.2 | 0.1 | 0.3 | + | + | + | 0.3 |
| **2017** | | | | | | | | | |
| Revenues | 0.2 | 0.1 | 0.9 | 0.6 | 1.8 | - | - | - | 1.8 |
| Contribution | - | - | 0.2 | 0.1 | 0.3 | - | - | - | 0.3 |

The addition of new Stores failed to improve overall contribution.

# Annex 6: Selected Financial Data

## A. Key P/L Indicators

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## D. Covid Impact

### Covid Impact

| | Actual/Plan Pre-Covid | | | Covid | Actual Plan Post-Covid | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | | 2020 | 2020 | 2021 | 2022 |
| (Mil AU$) | Actual | Budget | Plan | | Emergency Plan | Actual | New Budget | New Budget |
| Revenues | 50.8 | 57.7 | 75.9 | | 45.2 | 47.1 | 55.0 | 75.9 |
| Gross Margin | 27.9 | 32.1 | 43.0 | | 24.1 | 25.4 | 31.3 | 43.0 |
| | *55%* | *56%* | *57%* | | *53%* | *54%* | *57%* | *57%* |
| Opex | 26.4 | 31.0 | 38.3 | | 26.0 | 27.2 | 27.8 | 38.3 |
| | *52%* | *54%* | *46%* | | *58%* | *58%* | *50%* | *46%* |
| EBITDA | 1.5 | 1.1 | 6.7 | | -1.9 | -1.8 | 3.0 | 6.7 |
| | *3%* | *2%* | *9%* | | *-4%* | *-4%* | *7%* | *9%* |

To face the impact of the pandemic in early 2020, the Company launched a draconian restructuring plan to reduce Opex of about 10 million AUD in 2021 and move a year forward the delivery of the of 2021 pre-covid plan into the new budget of 2022 post-covid.

# Covid: The Moment of Impact (April-June 2020)

| | 2019 A | 2020 A* | Var % | 2019 A | 2020 F | Var % | 2019 A | 2020 F | Var % |
|---|---|---|---|---|---|---|---|---|---|
| | July - March | | | April - June | | | July-June | | |
| *Net Sales* | 35,3 | 42,5 | *20%* | 15,5 | 2,7 | *(83%)* | 50,8 | 45,2 | *(11%)* |
| *Gross Margin* | 18,8 | 22,7 | *21%* | 9,1 | 1,5 | *(84%)* | 27,9 | 24,1 | *(13%)* |
| *Gross margin %* | *53%* | *53%* | | *59%* | *56%* | | *55%* | *53%* | |
| *Opex* | 18,5 | 22,9 | *24%* | 8,0 | 3,1 | *(61%)* | 26,4 | 26,0 | *(2%)* |
| *Opex %* | *52%* | *54%* | | *51%* | *117%* | | *52%* | *58%* | |
| *EBITDA* | 0,3 | (0,3) | *n.a.* | 1,2 | (1,6) | *n.a.* | 1,5 | (1,9) | *n.a.* |
| *EBITDA margin %* | *1%* | *(1%)* | | *8%* | *n.a.* | | *3%* | *(4%)* | |

Covid-19 started to affect severely the last quarter of FY2020 due to the global closing of Temples and Stores in the months of February amnd March 2020.

* Management Accounting preliminary

9 791255 960454