SPECIALTYFASHION | GROUP

**ASX Announcement**

**28 February 2017**

# Specialty Fashion Group Announces Half-Year Result

- **Omni-channel strategy continues to deliver profitable growth**
- **EBITDA of $30.4m, up 12.7% on underlying PCP**
- **NPAT at $12.1m, a 36.8% improvement on PCP**
- **Gross margin up 1.9%  and store sales down 2% on a comparable basis**
- **Net cash of $12.3m up on PCP $1.4m**
- **Rivers delivers an EBITDA profit**
- **Online sales up 28%; now an industry leading 10.6% of total revenue**
- **City Chic continues to expand, locally and internationally**

Specialty Fashion Group Limited (ASX: SFH) (the "Group") announced today that Earnings Before Interest, Taxation, Depreciation and Amortisation[1] (EBITDA) for the half-year ended 31 December 2016 was $30.4 million, an increase of 12.7% compared with Underlying EBITDA for the previous corresponding period (PCP) of $27.0 million.

Net Profit After Tax for the half-year period was $12.1 million, an increase of 36.8% on the $8.8 million NPAT achieved in the PCP.

The increases in EBITDA and in NPAT were achieved despite sales revenue declining by 1%, to $430 million. Comparable store sales declined 2%, while the gross margin improved by 1.9% on a comparable basis to 58.0%.

Rivers achieved an EBITDA profit for the half-year.

The Company has not declared an interim dividend.

**CEO Commentary**

Gary Perlstein, Specialty Fashion Group's CEO, said:

> *"This is a hard fought result, achieved in a difficult and volatile Christmas trading environment.*
>
> *Our team has once again shown agility and grit to deliver improved performance against most of the key metrics we measure success by.*

[1] Underlying EBITDA is adjusted for fair value revaluation of derivative financial instruments through profit or loss and restructuring costs. A reconciliation of Underlying EBITDA to statutory profit before tax is provided in the appendices of the investor presentation, also released on 28 February 2017.

*Our strategy of continuous business improvement to deliver profitability growth is working. While sales revenues were slightly down, margin improved due to better markdown management and holding the overall cost of doing business flat. While we have further consolidated our position as the largest specialty retailer of women's fashion in Australia, we remain focused on increasing our efficiencies in everything we do.*

*Our strategy is to be the leading omni-channel retailer in our markets. Specifically, to lead in meeting the needs of women who are often overlooked by fashion - the older and plus-sized segments. Understanding our customers, and delivering a seamless and consistent online and offline customer experience across all channels, is central to our strategy. Our aim is to enable our customers to shop and engage with our brands – anytime, anywhere, any way.*

*Online sales continued to grow, up 28% over PCP, enabled by our omni-channel growth strategy. Our online sales of 10.6% of total sales continue to be well ahead of industry benchmarks, and an outstanding result for the retail demographic we operate in.*

*The result was again underpinned by strong progress against the Group's key growth priorities: rejuvenation of existing brands across the Group; transformation of Rivers into a profitable, growing brand; and expansion into new markets beyond Australia for City Chic.*

*Customer response to our refurbished stores continues to be strong. 14 stores across the portfolio were refurbished during the half. The continued uplift in online sales continues to be supported by a strong trend of repeat purchases by loyalty rewards customers. Given the scale of our loyalty rewards membership, this continues to be very encouraging.*

*Our confidence in the Rivers turnaround continues. Rivers traded profitably at an EBITDA basis for the half-year. This is a great tribute to the persistent focus and hard work of our team. The Rivers turnaround is on track, and while we feel the worst is well behind us, we will not be complacent in our focus and drive to ensure this improvement continues. We remain confident Rivers can maintain its growth momentum and achieve a much improved result this year over PCP.*

*There has also been some positive progress on other brands during this period. For example, the growth of City Chic continues both domestically and internationally, driven by online and wholesale. The City Chic brand continued to prove up its Myer rollout program during the half and negotiated further opportunities internationally. Overseas growth was solid, with a focus on continuing to build a multi-channel platform in the United States.*

*We also made significant progress during this period in improving important business fundamentals. This included continued progress in freshening inventories, and maintaining a steady cost of doing business."*

**Outlook**

The Group has been trading as planned since the start of the second half of FY17.

The Group remains fully committed to its omni-channel growth strategy – delivering a seamless online and offline customer experience for customers of all its brands. Key growth priorities to underpin this strategy remain focused on:

- The Group's brand rejuvenation program;
- The Rivers' transformation into a profitable and growing brand for the Group; and
- The considered expansion of City Chic, both in Australia and abroad.

The Group's focus on continuous business improvements will continue, and additional benefits from this are expected.

**Financial Overview**

Specialty Fashion Group had net cash of $12.3 million at 31 December 2016 (PCP net cash of $1.4 million), and unutilised bank facilities of $50.4 million.

The Group's gross capital expenditure was $8.6 million for the half-year (PCP $7.6 million). Funds continued to be predominantly spent on store refurbishment, the concession roll-out into Myer locations, the opening of new stores, investment in IT systems and on the turnaround of Rivers.

The Group remained focused on its omni-channel growth strategy across all brands, which supported strong online sales growth with an uplift of 28% on the PCP.

The Group's costs of doing business, as a percentage of sales during the year, increased to 51% (PCP 50.2%). Underlying annual inflation in wages and rentals was largely offset by cost savings achieved by tight cost controls, including exiting leases of underperforming stores, reducing base rentals of renewed leases, and removing further costs from Rivers.

**Continued Business Improvement**

The Group continues to deliver business improvements as part of its long-term strategy to be an omni-channel retailer that competes on brand and customer engagement, rather than on price.

Omni-channel Operations

The Group's omni-channel strategy is built around three main pillars:

- The store network - which now consists of 1,066 physical stores, plus an additional 29 Myer concession locations
- Seven e-commerce sites
- Social media networks - which build customer engagement with our brands

The new Crossroads e-commerce platform was launched and went live in November 2016. New sites for all other brands will roll out during the 2017 calendar year.

28 new stores were opened and 25 stores were closed due to store rationalisation during the half-year.

The Group refurbished a further 14 existing stores during the year.

Digital sales for the half-year grew to $45.6 million, representing 10.6% of total revenue, an increase of 28% or $10 million on the previous year. Enthusiasm for online shopping continues to grow across all customer demographics.

The successful rollout of the 'click & collect' initiative throughout all Australian stores during the half-year accelerated online sales, and is a reminder that a critical pillar of online sales success is an integrated physical store and online experience and presence. The Group is now a leading 'bricks and clicks' retailer, deeply experienced in leveraging a mix of channels to tailor outstanding customer experiences for each brand and their customers.

The Group's dedicated in-house customer insights team and CRM platform continues to drive positive customer engagement. The total loyalty rewards membership database exceeds 8.5 million members.

Gross Margin and Supply Chain Transformation

Gross margin was 58.0% for the half-year, compared to 56.1% for the PCP. The gross margin increase was due to higher average selling prices, better negotiated product cost price, and reducing duty charges. These gains were partly offset by the strengthening US dollar on the cost of purchases.

On-going supply chain transformation initiatives continue to be undertaken to assist in protecting margins. The Group is fully hedged through to June 2017.

***ENDS***

**INVESTOR ENQUIRIES:**

Gary Perlstein
Chief Executive Officer
Specialty Fashion Group
(02) 83037990

**MEDIA ENQUIRIES:**

Christopher Savage
K3 Investor & Corporate Relations
+61(0) 404 012 266

**About Specialty Fashion Group**

Specialty Fashion Group is the largest specialty retailer of women's fashion in Australasia, through Millers, Katies, Crossroads, Autograph, City Chic and Rivers.

**The Group's purpose is to be a global leader as its brands change the perception of fashion.**

At 31 December 2016, the Group operated 1,066 stores in Australia, New Zealand, USA and South Africa. Its brands' products are also available online at www.millers.com.au, www.katies.com.au, www.crossroads.com.au, www.autographfashion.com.au, www.citychic.com.au, www.rivers.com.au, and in the USA at www.citychiconline.com as well as selected international department stores.