SPECIALTYFASHION | GROUP

ASX Announcement

29 August 2017

Specialty Fashion Group Announces its Full Year Result and Board Update

- **Underlying EBITDA of $26.7m, up 6.6%[1].**
- **Rivers delivers EBITDA profit for the year.**
- **Net loss after tax of $8.4m (includes $4.9m for USA store exit costs and $2.5m impairment for USA stores).**
- **Gross margins improved by 0.4% reflective of improved markdown management and cost improvements.**
- **Online sales up 15.0% to $83.7m; an industry leading 10.4% of total revenue.**
- **City Chic USA Online and Wholesale which includes in-store presence in Macy's, Nordstrom and Bloomingdale's trading strongly and profitability. Brand establishment removes the necessity for City Chic standalone stores in USA which will be closed.**
- **Net Debt down from $13.3m to $8.3m.**

Specialty Fashion Group Limited (ASX: SFH) (the Group) announced today that Underlying Earnings Before Interest, Taxation, Depreciation and Amortisation[1] (EBITDA) for the full year ended 30 June 2017 was $26.7 million, an increase of 6.6% compared with Underlying EBITDA for the previous corresponding period (PCP) of $25.0 million.

The increase in EBITDA reflects the return of Rivers to profit. Comparable sales declined 2.0%[2]. Gross margin improved by 0.4% to 56.0% underpinned by improved markdown management and cost price improvements. Costs remain tightly managed.

Underlying City Chic USA operations continue to grow strongly and trade profitably[3]. The successful establishment of the profitable online and wholesale channels has meant that USA standalone stores can now be closed. This will enable the brand to focus on channels with higher profitable growth potential.

As at 30 June 2017, the Group had net debt of $8.3 million, compared with net debt of $13.3 million for the PCP.

Net loss after tax for the year was $8.4 million, due to the provision for store exit costs and store asset impairment for City Chic USA stores recognised during the year of $4.9 million and $2.5 million respectively.

The Underlying EBITDA of $26.7 million for the year excludes a one-off adjustment of $1.4 million relating to costs associated with evaluating a change of control proposal and provision for City Chic USA store exit costs of $4.9 million.

A final dividend has not been declared by the Company.

[1] FY2017 Underlying EBITDA adjusted for costs related to change of control proposal ($1.4m) and store exit costs for City Chic USA stores ($4.9m). FY2016 Underlying EBITDA adjusted for provision for restructuring costs ($1.9m). A reconciliation of Underlying EBITDA to statutory loss before tax is provided in the appendices of the investor presentation.
[2] Comparable sales are stated on a constant currency basis
[3] Excluding one-off store exit costs ($4.9m) and store asset impairment ($2.5m) relating to Chic Chic USA stores.

CEO Commentary

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

"This is an overall solid result with an increase in Underlying EBITDA and stronger balance sheet.

Despite it being a difficult trading environment, the improved EBITDA for the year was delivered through our core continuous business improvement strategy. This strategy is focussed on profitability growth across all facets of the business, underpinned with a determination to control and reduce costs of doing business wherever possible.

Our clear focus in the year was the turnaround of Rivers to a profitable brand, and we successfully achieved this. City Chic was also a standout and continues its positive trajectory both locally and internationally. Our mature brands including Millers, Katies, Crossroads and Autograph continued their growth in online sales however found trade challenging.

The Rivers turnaround has delivered commendable results with the brand achieving an EBITDA profit for the year. Improved product offerings and product depth, together with invigorated store look and feel, has resonated well with customers. These initiatives have restored the brand's value offering and customer loyalty base, and also attracted new customers. Planned cost efficiencies and more effective spending, particularly in marketing, have also helped the brand back to profitability.

Both international and domestic performance has been solid for the City Chic brand through its omni-channel platform. City Chic continues to look for new markets and trade successfully. Through the measured expansion of its wholesale partners, City Chic has managed to launch in international markets with limited cost and risk, making this channel very attractive and profitable to the Group.

In line with our continual review of our portfolio to maximise profits, a considered review of our City Chic USA 'bricks and mortar' stores was undertaken in the period. When the Group first entered the USA market through e-commerce channels, there was a demand from our customers for a physical store presence. We have now built our reputation and loyal customer base in the USA and our online sales and wholesale arrangements in the USA are all growing at impressive rates. We provide a physical presence to our customers via our wholesale partners Macy's, Nordstrom and Bloomingdale's, which provide a cost effective and risk minimising approach. As a result of these successful initiatives, we no longer require our six standalone physical City Chic stores, hence our decision to close them. Store exit costs amounting to $4.9 million have therefore been provided and removed from Underlying EBITDA. Impaired assets of $2.5 million have also been accounted for.

Our growth in online sales of 15.0% over the past year across all brands is impressive. Online sales now account for 10.4% of total revenues, or $83.7 million. We have migrated a number of our brands to new e-commerce platforms, with the remainder to be launched during the rest of the 2017 calendar year. The rollout of 'click and collect' during the year to all our stores nationally proved to be extremely successful. The accelerated uplift to online sales further cemented our understanding that a critical pillar to the success of online sales is an integrated physical store and online experience and presence. Our CRM platform consists of in excess of 9 million members. We have the ability to email over 5.5 million of them.

Optimisation of our physical store portfolio remains a key priority. We are relentless in reviewing store performance, and do not shy away from closing underperforming stores when the timing is right. Conversely, we are refurbishing stores at an appropriate rate to ensure in-store and online experiences are aligned.

30 new stores were opened and 79 stores were closed due to store rationalisation during the year.

Our core business fundamentals have also been well managed. We are methodically focussed on keeping our inventories clean and improving working capital."

Financial Overview

Specialty Fashion Group had net debt of $8.3 million at 30 June 2017 (PCP $13.3 million), and unutilised bank loan facilities of $24.7 million. The improvement in both EBITDA and working capital allowed the Company to repay the additional bank loan facility required to support Rivers over the past few years. $6.5 million of debt was repaid during the year. The Company has bank loan facilities of $52.0 million as at 30 June 2017.

The Group's gross capital expenditure was $15.9 million for the year (PCP $16.4 million). Funds were predominantly spent on store refurbishment, 30 new stores openings and investment in IT systems.

Underlying costs of doing business (CODB) reduced by $7.7 million[4], as a percentage of sales this has increased slightly to 52.7% (PCP 52.5%) on the back of an overall slight decrease in sales. Despite underlying annual inflation in wages and rentals, cost savings were predominantly achieved by tight cost containment across the business, exiting leases of underperforming stores, reducing base rentals of renewed leases, and removing costs from Rivers.

Outlook

July has been impacted by heavy promotional activity and this is expected to continue. The Group has proven agility in navigating challenging trading conditions and will continue providing great value to our customers whilst maintaining strong margin and cost discipline.

Key growth priorities for FY2018 are:

- Continue to grow Rivers' profitability and penetration;
- Expand City Chic across key multi channels, both in Australia and abroad;
- Rejuvenate the mature brands within our portfolio (Millers, Autograph, Katies and Crossroads);
- Enhance our digital and online proposition and accelerate channel migration.

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

Update on proposal from Al Alfia

As disclosed on 8 February 2017, the Group engaged in discussions with Al Alfia Holding WLL (Al Alfia) for a period of time in relation to its confidential, indicative and non-binding change of control proposal. As disclosed on 28 February 2017, due to unforeseen circumstances Al Alfia was unable to provide sufficient certainty that it could complete such a change of control transaction and the Group confirms that since that time there have been no active discussions with Al Alfia.

Chairperson

The Board has determined that it will move to a single Chairperson role for the Company. Anne McDonald will continue to act as Independent Chairperson of the Board. Michael Hardwick will relinquish his role as Co-Chairperson but will continue his contribution as a Non-Executive Director, and has also been appointed Chairperson of the Audit and Risk Committee. These changes will be effective 1 September 2017.

ENDS

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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.

[4] Underlying FY2017 CODB adjusted for costs related to change of control proposal ($1.4m) and store exit costs for City Chic USA stores ($4.9m). FY2016 underlying CODB adjusted for provision for restructuring costs ($1.9m).