

# city chic collective

## 2019 Annual General Meeting

21 November 2019

### CHAIRMAN'S ADDRESS

The 2019 financial year saw a new beginning for City Chic Collective and its people. The completion of the sale of the 5 brands to Noni B saw the company transformed from a retail conglomerate to a pure play in the women's plus size apparel market. The plus size market is material: over \$1 billion in Australia, \$30 billion in the USA, and worldwide around \$50 billion.

Our vision is to 'lead a world of curves' by providing this under-served market with fashionable, on trend apparel that fits well and at a price point that gives our customers a pleasant surprise. In terms of both financial results and the execution of our strategy, FY19 was a pleasing year. Here are some of the financial highlights as at 30 June, 2019:

- Comparable sales growth of 12.2% and top line sales growth of 12.6%
- Underlying EBITDA of \$24.9m vs \$19.9m pcp (25% growth) - EBITDA margin of 16.8% vs 15.1% pcp
- Continuing Operations Reported PBT of \$21.3m
- Continuing Operations Reported NPAT of \$14.3m (EPS of 7.4 cents)
- Group Reported NPAT of \$16.0m (EPS of 8.3 cents)
- Net cash position of \$23.2m vs net cash of \$16.1m at 1 July 2018
- Nil debt; debt facility undrawn throughout the year
- Fully franked final ordinary dividend of 1.5cps
- Fully franked full year FY19 dividend totals 6.5cps / \$12.5m (includes 2.5cps ordinary and 2.5cps special paid in March 2019). This represents the maximum dividend payout to the extent the dividend is fully franked.

That these results have been achieved in a challenging retail environment in Australia is testament to the strength of City Chic's value proposition, the relationship it has developed with its customers and our management and staff's execution skills. The growing strength of our business in the USA, where retail conditions are better than Australia, demonstrates the benefits of geographic diversification. The continuing success of our online business worldwide bodes well for our future as not only is it growing strongly but also it delivers a higher final margin.

Last month, we purchased out of bankruptcy the e-commerce assets of Avenue, a plus-sized US retailer in the value segment. Avenue traded in the US for over 30 years through a large store network and, more latterly, online. Avenue was one of a number of well-publicised victims of the increasing move of customers from bricks and mortar shopping to on-line. We paid US\$16.5m for the Avenue e-commerce business. This part of the business was generating around USD70m in annualised revenue prior to the business being put into Chapter 11 bankruptcy. The acquisition was funded by existing cash reserves and a bank facility.

Obviously the bankruptcy and the closure of all stores across the US will have caused damage to the brand and accordingly, we expect to see a material reduction in revenue in year 1 as we resuscitate the brand and the customer experience. That said, Avenue is a business that has built a strong heritage over three decades, it has a following of loyal customers and a large customer data base. We believe the purchase price gives us a good risk margin and the breathing space to do what is required to re-invigorate the brand and take advantage of the enormous opportunities

in the USA. Operating as it does in a lower price segment and being more conservative than the City Chic product, Avenue gives us the opportunity to participate in the value segment in Australia/New Zealand and in our incipient European business. Its large data base also gives us the opportunity to introduce Avenue customers to City Chic products.

Looking forward to FY20 and beyond, in addition to bedding in the Avenue acquisition, we will be working hard to continue to drive high margin growth through the online channel in Australia, the USA and beyond. To assist us in this task, we are improving our marketing and CRM capability as well as our service delivery. The infinite 'store size' of the online channel will allow us to trial new plus size segments to see if we can achieve a greater share of wallet with existing customers and offer our extended lifestyle segments to new customers. Customer acquisition to our direct website in the USA continues to be a key focus and we will allocate the appropriate resources to drive this initiative. We will supplement our online activity in the US with further enhancements to our partnership arrangements. We will also be trialling more partnerships in Europe and will seek to replicate the model that has worked well for us in building our business and brand awareness in America. In Australia, we will continue to open new stores where it makes economic sense to do so. We will also continue to upgrade stores to the larger format wherever suitable sites and rental deals are available.

In the Notice of Meeting agenda, shareholders would have seen an item relating to the issue of shares to our CEO and Managing Director. You may have noticed there were no explicit financial hurdles, i.e. the specific target and stretch goals. At the time the Notice had to be dispatched to shareholders, we were in the middle of the Avenue acquisition and the Board needed time to better consider the effect of the acquisition before setting the financial hurdles. You will have seen the non-financial requirement is that the CEO still be employed with CCX as at 30 June, 2024. The Board has now had the opportunity to consider and set the financial hurdles. To receive 100% of the entitlement, in addition to the employment requirement, earnings per share will need to compound cumulatively at or above 20% per annum for the period 1 July, 2019 to 30 June, 2022. At 12.5% cumulative compounding earnings per share growth over the same period there will be a 25% entitlement which increases on a straight-line basis until the maximum is reached. Below 12.5% cumulative compounding earnings per share growth, there will be zero entitlement.

The success of City Chic over the years has been its unremitting focus on the needs of the plus sized customer. Most of our management team have been together for a decade or more, indeed since the company's inception. They have built an intimate understanding of our customer through the design and delivery of what she wants, when she wants it and at the right price. City Chic's ability to do this consistently has engendered an emotional connection between the brand and its customers. This creates loyalty, repeat purchases, recommendations to friends and family and a reduced need to discount stock.

In summary, I believe FY19 was a good year for your company. We have a wonderful platform to support profitable growth in the years ahead. I would like to thank my fellow board members for their wise counsel through the year and the knowledge, energy and enthusiasm they bring to City Chic.

And on behalf of the Board, may I acknowledge and express our sincere thanks to the wonderful people and customers of City Chic. Our hard-working team, led by our passionate CEO, Phil Ryan, is tireless in serving and respecting our customers. Our customers choice to buy from City Chic is what gets us up in the morning, sustains our business and makes it possible to imagine a successful future. And it is what will drive our future success as we take City Chic to the world and pursue our vision of 'leading a world of curves'.

It is now my great pleasure to hand over to our CEO, Phil Ryan, to share his thoughts on the 2019 financial year and the prospects for 2020 and beyond.

## **CEO'S ADDRESS**

Thank you Michael and good morning ladies and gentlemen. I would like to add my welcome to you all to the 2019 AGM.

Last year we asked you to vote on the name change to "City Chic Collective". I stand here today with a business reflective of that name. It continues to represent the people that make up our business, our team in the stores and support office. What has grown significantly is our sisterhood of customers across other segments of the plus size market and across the globe.

Leading a world of curves continues to drive all our tactical and strategic decisions. We will remain a key player in the underserved global plus size market. The plus customer remains at the centre of everything we do. The emotional connection we have with her, and our customers have with each other, is what we call the sisterhood. We understand this relationship is key to our success.

It is our agile yet disciplined retail business, and the creative talents required to build this emotional connection, that has driven City Chic. We will replicate this across other segments in this growing global market.

Retailing today is not about focusing on channels, it is about knowing your customer and offering her what she wants, where she wants it. And most importantly, it is about listening to her and being there when she wants to interact with you; whether it is in store, social media, email, through our partners or via our websites.

We place more emphasis on customer spend and numbers by geography than we do on channels. This world is evolving so fast that to survive you need to understand this and have the structures in place to measure it correctly.

I would like to mention how humbled I am by the response of all stakeholders to our business and our performance in FY19. I am thankful for the support of my team, the board and the investment community. This is something that I do not take for granted.

Today I will talk through our operational achievements, our segments, lifestyles and brands. I'll then outline our continuing growth opportunities and provide an outlook for FY20.

### **Operational Achievements**

Total sales growth in FY19 was 12.6%. This was driven by both an increase in customer numbers and in average customer spend. Customer numbers increased 7% from 360k to 385k in FY19 with the balance of the growth coming from increased spend.

The continuing growth of our Northern Hemisphere business was the highlight of FY19. Sales went from 16% to 20% of turnover. Our US City Chic website is the key driver of our growth and is the focus of our customer acquisition strategy. Our Australian business continued to achieve growth expectations, through an increase in both customer numbers and customer spend.

Our online business has now reached 44% of total sales, up from 36%. This is driven by the increase in customer demand from the continued expansion of our range and lifestyle offering. We are now delivering 6 online exclusive looks a month and have numerous lifestyles consistently available for our customers. Our newest additional lifestyle is the "Lux" dresses; which retail for \$300-\$400. They take our occasion dresses to the next level and offer the plus customer something she has not seen before. We have also introduced Party and Boho lifestyles and initial reads are pleasing.

In FY19 we opened nine new stores and three larger format stores. These have performed to expectations. We're consistently reviewing our store portfolio to ensure that the economics are in line with turnover; and the changing rental market. During the year we implemented a maintenance programme across our store network to ensure that our customer experience reflected the City Chic brand. Both our store teams and customers have been happy with the results.

Our partner business in both America and Europe continues to grow. Our partner strategy has successfully created brand awareness in the US and driven results on our website. We are evolving this strategy to ensure now that all partners can drive profitable growth, not just market awareness.

As part of our US growth strategy we purchased Hips and Curves in April 2019. Hips is a US plus size intimates and playwear website. The brand provides us with a complementary lifestyle expansion for City Chic and a database of US plus size customers that have already commenced the migration to City Chic apparel.

We implemented 24-hour global customer service and live chat. This ensures that we are there for our customers when they want us to be, wherever in the world they are. This has been exceptionally well received by our customers worldwide.

Our cost of doing business reduced from 44.1% to 41.3% in FY19. This is due to stringent cost controls which reflect our lean structure and the increase in our lower cost and higher margin online business.

We finished the year with a clean inventory position. We expect stock levels to increase as we drive our global growth.

In the last 12 months there has been no change in my executive team. In my view they are one of the strongest retail management teams in Australia today. We achieved all of this while transforming to a standalone business. This included setting up independent team structures, redefining processes and implementing new technology platforms. I extend my thanks to the entire team who worked tirelessly to achieve this.

We have had a good year. Having said that there are things we could have done better and things we have learnt along the way. We are constantly re-evaluating everything we do with a view to continual improvement.

## **Brands and Segments**

We now operate in four key segments of the plus size market.

1. Fashion Forward 18-35 year old mid market through City Chic
2. Youth Casual Market through CCX
3. Conservative 35-55 year old value end of the market through Avenue
4. Playwear and intimates lifestyle through Hips and Curves.

City Chic, our largest brand, is BOLD SEXY GLAM AND CHIC, operating in the more fashion end of the plus size market and targets the 18-35 year old, with a mid market price point. The brand has a very strong USP; and the team intimately knows this customer through years of consistent management and data analysis. City Chic has a true Omni-Channel global offering with 50% of sales in stores, 44% online and 6% wholesale.

CCX is a casual brand that is aimed at the youthful 18-25 year old with a more street style. It started its life as part of the City Chic lifestyle extensions and has shown amazing growth in the last few years to now be a standalone brand available through City Chic stores and websites.

Hips and Curves is an intimates and playwear plus size lifestyle brand that operates an independent website, only in the USA. This woman is not defined by age and likes to have a little fun. The product from Hips will be launching in Australia in the second half of FY20. Concurrently, we are looking to introduce to this consumer the City Chic brand in the USA to drive the City Chic website growth. The first six months of the acquisition have been pleasing and the migration of customers is going to plan.

At last year's AGM I said, "There are many areas that we see as future growth avenues for City Chic." This comment was not the driver for the acquisition of the US Avenue business. However, as a result of this I am being very careful with what I say this year.

In October, we purchased Avenue brand's ecommerce and database assets out of bankruptcy. At a strategic level our focus is plus size, online and global; Avenue ticks all these boxes. Segment expansion within plus and customer acquisition in the USA are two key growth drivers. Avenue delivers us both of these.

We have seen a number of internal challenges, as would be expected from the acquisition of a bankrupt company. Initial reads from customer, have shown signs she will continue to support the brand. Even with decimated online inventory and the liquidation of all store stock, she has continued to shop. That said it is still very early days.

During the liquidation period the Avenue team posted on social media that the brand would stay alive online, despite all stores closing. The response was incredible. I read them all, over a thousand, and the feeling that I got was the same emotional connection that City Chic has with our customers. These ladies are connected to Avenue and wanted it to be what she remembered. Our job is to make it that for her and not let her down. It's this emotional connection to the brand that drove the purchase decision.

In September this year, all stores were closed. At the peak there were over 300 stores with 30 years of history. The negative impact of the store closure on the emotional connection with the customers is something I am very aware of. We will implement communication strategies to circumvent this; however it is too early to understand how she will respond.

We will operate avenue.com as a standalone website in the USA and fully integrate with our systems by the end of FY20. We have maintained a small team in New Jersey to operate the business as we establish the go forward structures required to not let her down. Avenue operates in the more conservative value segment of the market. This is a segment that we had identified as an opportunity for our growth. We'd already started working on this and had put in place the design team to create a brand for this segment. This team was involved in the due diligence process and was then assigned to Avenue upon Acquisition. The person heading this team has worked in the conservative and value plus size market globally for over 25 years.

We had thought through the management bandwidth required to create and grow a brand. This had been factored into our City Chic structures, so when Avenue came along we were ready. An established customer base with product history is a lot less challenging than a start-up.

Our initial focus has been to build inventory to a commercial level and drive a more streamlined promotional calendar and digital marketing strategy. We will then look to engage the digital consumer and migrate the store customers to the online channel.

It is very early days; but I am pleased to say that there have not been any unpleasant surprises since acquisition. However, we do not expect it all to be smooth sailing given the recent history of the business.

## **Growth Levers**

Now turning to our growth strategies for FY20 and beyond.

City Chic Collective is a global multi-channel growth business. For the City Chic brand the growth drivers are:

1. Accelerated USA online customer acquisition - we had success in the second half of FY19 and H120 has performed to expectations.
2. Australian online growth through lifestyle extensions and range build.
3. We are enhancing our customer experience globally with the launch of our new online platform in October.
4. We are implementing a new CRM and email platform to allow us to be where she wants us to be; and improve our communication and connection with her.
5. We will open a further 15 new stores within 2-3 years, with five already opened in the first half of FY20. We will only do this when the deals are correct to ensure that the bricks and mortar business is economically structured for the new retail environment.
6. We see a further 15 larger format store conversions, with the first 4 performing to expectations and another one opened in the first half. The same economic discipline as new store openings will apply.
7. We are establishing new wholesale partnerships.
8. And we are continuing our wholesale trail in Europe.

We have implemented the structures to enable us to pursue these all in the next few years.

Alongside this, the reinvigoration of the Avenue brand, through the strategies outlined earlier, will drive segment expansion within the plus market.

## **FY20 Outlook**

Turning to FY20, we remain on track to achieve positive comparable sales growth for the year. As shareholders are aware, in retail businesses the period going into Christmas is always the most important for sales. And it's not only Christmas but also Black Friday and cyber Monday too. We are just about to enter that critical trading period, and while we feel comfortable about our products, the tale of the first half will be told over the next six weeks. Due to the high level of online sales, we are in a unique position for a retail business in that we are profitable in every month. Given the large trading months in this quarter, our earnings in the first half outweigh earnings in the second half of the financial year.

I would like to thank the almost 700 staff at City Chic for their hard work and dedication over the past year. We have a sensational team.

Michael our first year together has been challenging, exciting and successful. Our new board is functioning better than I ever could have hoped. The Avenue acquisition went from an idea to a reality in a month, and the Board's ability to be nimble allowed us to achieve that; thanks to you all.

Many thanks also to our wonderful customers who continue to inspire us all at City Chic. And finally to our shareholders, I thank you for your ongoing support.