

city chic collective

22 May 2023

Market Update

City Chic Collective Limited (ASX: CCX) (“City Chic”, or the “Group”) today provides an update on its debt facility, the progression of a strategic review being undertaken to return the business to profitable growth and on its trading for the 45 weeks to 14th May 2023 (“YTD”).

Debt Facility

City Chic announces that with the ongoing support of its lender, the current \$46.5 million debt facility has been amended, which will result in a staged reduction in the facility limit to \$21.5 million by the end of FY24, together with the extension of current covenant requirements through Q1 FY25 to reflect the anticipated trading performance of the business. The company believes that this secures the necessary working capital requirements to return the business to profitable growth through FY24.

Based on its current revenue trajectory, City Chic remains on track to achieve a positive net cash position at the end of FY23.

Strategic review

City Chic is well progressed on a strategic review, focusing on its online and international businesses with the assistance of external advisers, GNG Partners, to determine the most efficient pathway for returning to profitable growth, having regard to current economic conditions and resulting pressures on demand in its demographic.

Accordingly, City Chic has decided to accelerate its inventory unwind, with a focus on EMEA given the additional inventory in that market. This is expected to drive cash flows and reduce the inventory balance at the end of FY23 to less than \$100m¹. Inventory is expected to reduce further through FY24 as the Group continues to drive promotional activity, with margins likely to remain soft through H1 FY24. The Group expects to have a stronger inventory position from Q2 FY24, with ‘newness’ ready for the key trading period, and to be clean into the second half of FY24. City Chic is targeting inventory levels equivalent to three stock turns per annum (excluding goods in transit) as it returns to a more normalised inventory position.

The strategic review has also challenged and validated the actions already being undertaken, as outlined in the Group’s H1 FY23 results, including:

- Simplifying its logistics: City Chic has closed seven warehouses with two further closures due in the next 3 months. The transition to a state-of-the-art automated 3PL facility in the USA was completed in March. These initiatives are expected to deliver annualised savings of ~\$10m, helping combat inflation and return fulfillment costs to 19-20% of sales;
- Moving to a new international freight forwarder to lower annual stock input costs by ~\$1m, these savings are expected to be incremental to reduced shipping rates down from historical highs;
- Focusing the range on high value products and optimising customer choice; and
- Revising its product sourcing strategy to return to a more agile supply chain.

¹ Excludes any year end assessments.

The next stage of the review focuses on the Group's operations across channels and geographies, including the reassessment of its cost base to ensure it has the right operating structure in the current economic environment.

The conclusions of the strategic review and resulting further measures to be taken will be outlined alongside City Chic's FY23 results in August.

Trading update

Group sales for the 45 weeks to 14 May 2023 are down 15.2% to \$262.2m compared to the prior corresponding period ("PCP")²; but up approximately 16.4% on FY21.

Revenue by region and channel for the first 19 weeks of H2FY23 is detailed below, and in this period gross margin is down 18.8 percentage points of revenue on PCP.

As outlined in the H1FY23 results, January and February saw revenue decline 17% against PCP with increased promotional levels in line with competition and as City Chic cleared product ahead of its warehouse consolidations program.

Revenue was impacted in the US by the transition in March to the new 3PL facility as City Chic reduced its promotional activity more than anticipated to avoid excessive delivery times and ensure a good customer experience. Partner activity was also impacted during the transition period as available product lines were reduced.

As also outlined in its H1FY23 results, City Chic anticipated a return to more normal promotional activity into the fourth quarter with the change in season. As the new season was introduced, promotional activity was reduced in the UK and ANZ, however this impacted conversion rates with consumers not responding as expected. With a return to promotional activity in April sales in ANZ improved, however, UK operating conditions have remained exceptionally challenging and heavy discounting is required to drive demand.

These unique circumstances significantly impacted March revenue. Sales in April and into May have improved and are returning to the trend seen in January and February.

Fulfilment costs YTD as a percentage of revenue remain ~5% above last year due to lower average selling prices and volumes although April saw improvement in cost per transaction as the Group's warehouse consolidation nears completion. Other operating costs across the business have reduced in line with management actions being taken.

Unaudited revenue by region and channel

	YTD trading (wk 1-45)			Trading in H2 (wk 27-45)		
Revenue by Region (A\$m)	FY23 YTD	FY 22 Var %	FY 21 Var %	FY23 YTD	FY 22 Var %	FY 21 Var %
ANZ	122.1	-10.8%	-3.0%	42.6	-22.5%	-21.8%
Americas	106.2	-21.6%	18.6%	37.3	-32.6%	-4.4%
EMEA	33.9	-8.0%	239.2%	13.7	-13.5%	44.2%
Total	262.2	-15.2%	16.4%	93.6	-25.8%	-9.1%

	YTD trading (wk 1-45)			Trading in H2 (wk 27-45)		
Revenue by Channel (A\$m)	FY23 YTD	FY 22 Var %	FY 21 Var %	FY23 YTD	FY 22 Var %	FY 21 Var %
Online	182.5	-23.2%	12.7%	67.1	-26.1%	-11.9%
Stores	53.5	6.2%	-8.2%	17.6	-20.9%	-28.1%
Partners	26.2	23.1%	418.4%	8.9	-32.0%	275.5%
Total	262.2	-15.2%	16.4%	93.6	-25.8%	-9.2%

² Prior year revenue numbers have been restated to include freight income consistent with the reclassification made at year end FY22.

Commenting on trading, Phil Ryan, Chief Executive Officer and Managing Director of City Chic said: “Operating conditions have remained challenging, resulting in the continuation of strong promotional activity across the market. We responded to drive demand and clear excess inventory lines, focusing on converting inventory into cash while reducing costs. After the disruption to our supply chain in March it is pleasing to see revenue improving through April and May especially in the US.

“The strategic review will build on the actions we’re taking to strengthen our balance sheet, streamline our operations globally to return to a more agile operating model, improve margin and logistics as a percentage of revenue and reduce our cost base to return to profitable growth. I look forward to reporting on the outcomes of the review as we look to return to a position of strength for our shareholders and other stakeholders.”

Market Update Conference Call

Phil Ryan, Managing Director and CEO, and Peter McClelland, CFO, will host a conference call for investors and analysts today at 9.30am AEST to discuss the market update.

To listen to the conference call, please pre-register via the link below:

<https://s1.c-conf.com/diamondpass/10030944-id87u2.html>

All financial information included in this market update is unaudited and remains subject to further review and finalisation.

This announcement was approved by the City Chic board of directors.

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About City Chic Collective

City Chic Collective is a global omni-channel retailer specialising in plus-size women’s apparel, footwear and accessories. It is a collective of customer-led brands including City Chic, Avenue, Evans, CCX, Hips & Curves, Fox & Royal and Navabi. City Chic and CCX are better dressing for plus women and its omni-channel model comprises of a network of 88 stores across Australia and New Zealand (ANZ) and websites operating in ANZ, the US, the UK and Europe. Navabi (Germany-based), Avenue (US-based) and Evans (UK-based) target a broad customer base across the conservative segment, both with a long history and significant online customer following. Hips & Curves and Fox & Royal are online intimate brands.

Forward Looking Statements

Certain statements contained in this announcement are forward-looking statements or statements about future matters, including any indications of, and guidance or outlook on, the earnings, financial position and/or performance of City Chic. Forward-looking statements are not guarantees or predictions of future performance. While prepared in good faith and based on best estimates, reasonable assumptions and information available at the time of preparing the statements, these statements involve known and unknown risks and uncertainties and other factors (many of which are beyond the control of City Chic) and may involve elements of subjective judgement and assumptions as to future events (which may or may not be correct). No representation, warranty or assurance is given that the occurrence of any of the events expressed or implied in these statements will actually occur or that actual outcomes will not differ materially from the outcomes expressed or implied in these statements.