

SPECIALTY FASHION | GROUP

ASX Announcement/Media Release

16th January 2015

First Half Results and Rivers Transition Update

Specialty Fashion Group Limited (ASX: SFH) ("The Company") provides its results for the half year ended 31 December 2014 and an operational update on the integration of Rivers into the core business.

First Half Results

The Company's business excluding Rivers has performed well during the half year ended 31 December 2014, recording increased revenues and improved gross margins compared to the previous corresponding period (PCP). This pleasing performance was driven by: positive comparable store sales growth; controlled margins in a highly promotions driven environment; and a successful cost reduction program. Most notably, the Millers brand continues to perform strongly under its new leadership team.

However, as outlined at the AGM in November 2014 several legacy issues still need to be addressed before the Rivers integration process is completed and the brand contributes to the Company's profitability.

Group sales for the half year were \$413.0 million, 27.4 per cent higher compared to the PCP, reflecting underlying comparable store sales growth of 5.7 per cent in the half year for the Group, excluding Rivers.

The Company expects earnings before interest, taxation, depreciation and amortisation (EBITDA) for the half year ended 31 December 2014 to be within the range of \$21 million to \$23 million, which compares with EBITDA for the PCP of \$31.2 million, noting that the PCP contained a profit on acquisition of Rivers of \$4.6 million. The current half year result includes an estimated loss of \$11 million attributed to the ongoing Rivers integration process.

Rivers Transition

Since Rivers was acquired twelve months ago, considerable progress has been made to transition and integrate the business into the wider Group. When acquired, Rivers was a business that had been adversely affected by aggressive discounting, excessive marketing expenditure and significant levels of inventory accumulation. The Company was aware of these issues and the challenges they presented, and throughout 2014 we implemented strategies to address these issues and turn the Rivers business around. However, when compared to our expectations at acquisition, these strategies are taking longer than initially anticipated to have a positive impact on Rivers' profitability.

Despite the current challenges, by liquidating the stock in half the expected time frame, the business will ensure the long term brand equity is retained, albeit with a negative impact to the Company in the next twelve to eighteen months.

To transition and integrate Rivers, the Company has been focused on strategies and initiatives across five key areas of the business:

- product management;
- leadership;
- marketing;
- supply chain management; and
- store performance.

The Company remains confident that with the successful execution of the abovementioned focused strategies and initiatives, the Rivers business will deliver a meaningful contribution to the Company's profitability in future years.

CEO's Comment

Specialty Fashion Group CEO, Gary Perlstein, said: *"Our businesses outside Rivers have performed well in H1 and our focused pursuit to rebuild the Rivers brand and to integrate the operations continue with enthusiasm and optimism as to its future. Notable recent achievements as part of the Rivers turn around have included:*

- *positive performance of the first Rivers womenswear category fully influenced by our SFG processes;*
- *appointment of a General Manager for the brand; and*
- *progress to reduce ongoing marketing spend and align future Rivers marketing efforts with our digital strategy.*

However, continued discounting activity, whilst crucial to accelerate the improvement of the Rivers business in the medium term, has had a significant negative impact on our margins in the short term. Nevertheless, we remain confident that Rivers will make a meaningful contribution to the Company's profitability in future years alongside our other brands".

Please Note Below

The estimates contained in this update in relation to the half year ended 31 December 2014 are preliminary in nature, subject to finalisation within the Company as well as review by the Company's external auditors. Further details will be available with the half year results which are scheduled to be released on or around 24 February 2015.

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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 company operates 1105 stores in Australia, New Zealand, USA and South Africa and 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.rivers.com.au, www.citychic.com.au, and in the USA at www.citychiconline.com.