

ASX Announcement/Media Release

23rd February 2016

Specialty Fashion Group Announces Half Year Results

- **Solid performance across key metrics**
- **Positive Comparable Stores Sales Growth of 5.7%**
- **Rivers improving, with EBITDA losses halved compared to PCP**
- **Underlying EBITDA up 19.2%, NPAT up 49.2% over PCP**
- **Online sales up 58.9%; now 9.0% of total revenue**
- **City Chic accelerates growth, both locally and internationally**

Specialty Fashion Group Limited's (ASX: SFH) (the Group) Revenue for the half year ended 31 December 2015 was \$434.3 million, 5.2% higher compared to the Previous Corresponding Period (PCP). This increase reflects underlying comparable store sales growth (CSG) of 5.7% for the Group during the half, including Rivers. This is the fourth consecutive six-monthly period of positive CSG by the Group.

Underlying Earnings Before Interest, Taxation, Depreciation and Amortisation¹ (EBITDA) was \$27.0 million, which includes a loss of \$5.2 million attributable to Rivers, compared with underlying EBITDA for the PCP of \$22.6 million, which included a loss of \$11.2 million attributable to Rivers. Net Profit after Tax for the half year was \$8.8 million compared with \$5.9 million for the PCP, up 49.2%. As at 31 December 2015 the Group had net cash of \$1.4 million.

The underlying EBITDA of \$27.0 million for the half excludes a one off adjustment of \$1.5 million relating to the planned closure of the Rivers' warehouse in Ballarat.

As outlined at the AGM in November 2015, the Board has determined it would be prudent to continue to retain cash reserves, rather than to declare an interim dividend.

Gary Perlstein, Specialty Fashion Group's CEO, said: "Our growth strategy is on track and delivering positive momentum across the business. The Group delivered an impressive fourth consecutive six-monthly period of positive CSG. This has contributed to improved performance against the key metrics we measure success by.

The improved performance by Rivers during this half is extremely encouraging. We are on track with the transformation of this iconic brand. There is hard work still to go, but the worst is now behind us.

I remain confident that Rivers will start trading profitability during FY2017, and will make a meaningful contribution to the Group's profitability in future years alongside our other brands.

A key initiative has been the trial of our new Rivers concept store, launched in the Watergardens Shopping Centre during the half. We have made good progress reducing costs, and aligning future Rivers marketing efforts with our digital strategy.

¹ Underlying EBITDA is adjusted for fair value revaluation of derivative financial instruments through profit or loss and restructuring costs. A reconciliation of the underlying EBITDA to profit before tax is provided in the appendices of the investor presentation, also released 23 February 2016.

Customer response to the launch of our new ranges across all brands and categories has been strong, with continued uplift in online sales, supported by a strong trend of repeat purchases by loyal rewards customers.

The Group continues to deliver on its strategic objectives. In particular the City Chic brand has negotiated exciting opportunities internationally during this half. This momentum will underpin significant growth in the future."

Financial Overview

Specialty Fashion Group had net cash reserves of \$1.4 million at 31 December 2015 (PCP \$5.0 million), and unutilised bank facilities of \$44.5 million.

The Group's gross capital expenditure was \$7.6 million for the half year (PCP \$10.7 million), with the funds predominantly spent on store refurbishment and the opening of 17 new stores, the continued focus on Millers' brand rejuvenation, and on the integration and turnaround of Rivers.

The Group also remained focused on its Omni-channel growth strategy across all brands, which has supported strong online sales growth, and an uplift of 58.9% on the PCP.

The Group's costs of doing business, as a percentage of sales during the half, reduced to 51.3% (PCP 54.7%). Despite underlying annual inflation in wages and rentals of between 2% and 4%, cost savings were achieved by exiting leases of underperforming stores, reducing base rentals of renewed leases and removing 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 competing on price.

Omni-channel Operations

The Group's total physical store portfolio was 1,089 stores at 31 December 2015, following the opening of 17 new stores, and closure of 14 stores due to store rationalisation during the half (net increase of three stores). The Group plans to open seven new stores and refurbish a further 27 existing stores during the second half of FY2016.

The Group's digital sales grew to \$39.1 million for the half, representing 9.0% of total revenue, an increase of 58.9% or \$14.5 million on the previous half.

Gary Perlstein said: "It's clear customer enthusiasm for online shopping continues to grow across all demographics. Customers have significantly better online choice and service from all retailers, and it is essential we continue to provide an online experience that delivers and exceeds expectations. We expect growth in online digital retail will continue throughout FY2016."

Gross Margin and Supply Chain Transformation

Gross margin was 57.2% for the half compared to 60.2% for the PCP, impacted predominantly by the strengthening US Dollar on the cost of product, offset against gains on negotiated product pricing and duty.

The final phase of the integration of Rivers' supply chain into the Group is well underway, with the planned closure of the Rivers' Ballarat warehouse in February 2016. All Rivers' product replenishment and fulfilment of online sales orders will now be handled through the Group's facility located in Sydney.

Ongoing supply chain transformation initiatives have assisted against the strengthening of the US dollar. The Group is fully hedged through to June 2016 and substantially hedged for the next six months thereafter.

The Group's dedicated in-house customer insights team and CRM platform continues to drive positive customer engagement outcomes.

The total membership database exceeds 8 million members with the ability to email 4.8 million of these members. Focus on expanding the Rivers' membership database has resulted in the Rivers membership database increasing to 1.7 million members during the half, with 0.8 million members being able to receive emails.

Update On Key Growth Priorities

The Group's key growth priorities are:

- 1) Rejuvenation of existing brands across the Group;
- 2) Transformation of Rivers into the age of Omni-channel retailing; and
- 3) Expansion into new markets beyond Australia for City Chic.

1. Millers' Brand Rejuvenation

Millers is the Group's largest brand, and continues to perform well, delivering positive CSG sales during the half. The brand has been tasked to upgrade every facet of its operations.

New in-store and online branding efforts and initiatives have been well received by Millers' customers and is reflected in the positive CSG sales for the half. A highlight has been the launch of the "SeeingMe" project with the brand's long-term commitment to celebrate the mature woman, receiving significant customer engagement.

The "seeingmeproject.com" is an evolving, living hub, where our participants will find films and inspirational interviews with like-minded women, being informed with up to the minute research conducted by the group's in-house research team into hot topics for women aged 40+. (<http://seeingmeproject.com/>)

During the half, a further five existing sites were rebranded using the new Millers design concept with pleasing results, with a further eight sites planned for refurbishment in the second half.

Growth is expected to continue in FY2016, supported by further roll out of the new Millers' store design concept, the opening of new stores and increased online sales. This will be underpinned by the brand's value proposition for quality and product differentiation.

2. Rivers Brand Transformation

Rivers' transformation is on track. Operating performance improved significantly, with underlying EBITDA losses for H1FY16 half of the PCP.

Rivers' underlying EBITDA loss excludes a one off adjustment of \$1.5 million relating to the planned closure of the Rivers' warehouse in Ballarat.

Inventories inherited on acquisition have been cleared out of the business, and customer response to new ranges being introduced to the business has been strong.

Online sales for Rivers have jumped 55% in the period, driven by a more efficient, digitally-led marketing strategy which, while at a reduced marketing spend, has grown the customer membership database and delivered strong repeat purchases. This strategy of more efficient marketing to drive online sales will continue.

A key initiative has been the trial of a new Rivers' concept store, launched in the Watergardens Shopping Centre during the half. Management is encouraged by the results of the new design concept and is working on refining the model.

Management is confident continued successful execution of focused strategies and initiatives will lead Rivers to start trading profitability during FY2017 and deliver a meaningful contribution to the Group's earnings in the future.

3. City Chic's Expansion

City Chic has made successful inroads expanding its presence internationally this half.

- In addition to its existing presence in 60 Nordstrom stores across the USA, the brand has launched its product into 90 Macy's.
- City Chic has entered the UK market with successful product trials in Evans, part of the Arcadia Group.
- 3 New City Chic stores have been opened in the UAE under licence.

City Chic continues to significantly grow online sales in Australia and the USA. Continued growth of international online sales will remain a key focus for the brand during the rest of FY2016.

The Group will continue to assess further site opportunities to augment its current seven stores in the United States and two stores in South Africa.

Outlook

The Group has continued to record positive CSG Sales since the start of the second half of FY2016 to date, and the focus for the remainder of the year is to continue:

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

The Group's focus on continuous business improvements and Omni-channel growth will also ensure ongoing benefits to the Group.

Gary Perlstein said: "The key to success will be to compete for increased sales and improved margins through product differentiation and customer engagement of our brands rather than competing on price. The Group will also focus on potential growth opportunities for our brands through measured entry into retail markets beyond Australia."

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.

The Group operates 1,089 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.citychic.com.au, www.rivers.com.au, and in the USA at www.citychiconline.com as well as selected international department stores.