

ASX Announcement

23rd August 2016

Specialty Fashion Group Announces Full Year Result

- **Omni-channel strategy delivering growth**
- **Positive comparable stores sales growth of 4.4% for FY16**
- **Underlying EBITDA of \$25.0m, up 23.1%**
- **Rivers underlying EBITDA losses halved to \$9.9m**
- **Online sales up 42% on LY; now 8.8% of total revenue**
- **City Chic continues to accelerate growth, locally and internationally**
- **Net debt 52.1% lower than LY**

Specialty Fashion Group Limited (ASX: SFH) (the Group) announced today that sales revenue for the year ended 30 June 2016 was \$826.2 million, 4.4% higher compared to the previous Corresponding Period (PCP). This increase reflects comparable store sales growth (CSG) of 4.4% for the Group for the year, including Rivers. This is the fifth consecutive six-monthly period of positive CSG by the Group.

Underlying Earnings Before Interest, Taxation, Depreciation and Amortisation¹ (EBITDA) was \$25.0 million, which includes a loss of \$9.9 million attributable to Rivers, compared with underlying EBITDA for the PCP of \$20.3 million, which included an underlying loss of \$21.6 million attributable to Rivers. Net Loss for the year was \$2.2 million compared with a net loss of \$4.5 million for the PCP. As at 30 June 2016 the Group had net debt of \$13.3 million, compared with net debt of \$27.8 million for the PCP.

The underlying EBITDA of \$25.0 million for the year excludes a one off adjustment of \$1.9 million relating to the closure of the Rivers warehouse in Ballarat.

The Company has not declared a final dividend.

CEO Commentary

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

"This is a pleasing result, achieved in a difficult trading environment.

I am enormously proud of the team's resilience and agility to push through a terrible start to Winter due to warm weather, and to deliver improved performance against most of the key metrics we measure success by.

Our growth strategy is working. The Group delivered an impressive fifth consecutive six-monthly period of positive CSG, and consolidated its position as the largest specialty retailer of women's fashion in Australia.

Our strategy is to be the leading omni-channel retailer in our markets. Specifically, to lead in meeting the needs of women who are often overlooked by fashion - the older and plus-sized segments. Understanding our customers, and delivering a seamless and consistent online and offline customer experience across all channels, is central to our strategy. Our aim is to enable our customers to shop and engage with our brands – any time, any place, any way.

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 statutory loss before tax is provided in the appendices of the investor presentation, also released on 23rd August 2016.

We're particularly pleased with the 42% growth in online sales over last year, enabled by our omni-channel growth strategy. Online now accounts for 8.8% of total revenues, or \$72.8 million. That's an increase of \$21.6 million over last year. Our online sales as a percentage of total sales are ahead of industry benchmarks, and an outstanding result for the retail demographic we operate in.

The result was underpinned by strong progress against the Group's key growth priorities: rejuvenation of existing brands across the Group; transformation of Rivers into a profitable, growing brand for the Group, leading in the age of omni-channel retailing; and expansion into new markets beyond Australia for City Chic.

Customer response to our refurbished stores, and to the launch of new ranges across all brands and categories, has been strong. Importantly, the continued uplift in online sales is supported by a strong trend of repeat purchases by loyalty rewards customers. Given the scale of our loyalty rewards membership, this is very encouraging.

Our confidence in the Rivers turnaround continues. Rivers has halved its loss on last year, and is expected to start trading profitably during FY2017 year. The Rivers turnaround is on track, and the worst is well behind us.

The Rivers leadership team is delivering strong improvement across the business. Improved product is resonating with consumers across all categories. Cost-effective online marketing is also making a real difference in building customer loyalty, with a big uplift in online sales and repeat purchases.

The growth of City Chic continues to accelerate domestically and internationally, both online and through our measured store expansion program. The City Chic brand opened 14 concession locations in Myer, and negotiated further high potential opportunities internationally this year. A further 10 Myer concession locations opened in July 2016. This momentum will underpin significant growth in the future.

We also made significant progress during this period in improving important business fundamentals. This included strong progress in clearing inventories. Net debt was \$14.5 million lower year on year at 30 June 2016, and our balance sheet is strong. Costs of doing business as a percentage of sales were also reduced by 330 basis points during the year."

Outlook

The Group has been trading in accordance with plan since the start of FY17.

The Group remains fully committed to its omni-channel growth strategy – delivering a seamless online and offline customer experience for customers of all its brands. Key growth priorities to underpin this strategy remain focussed on:

- The Group's brand rejuvenation program;
- The 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 will continue, and additional benefits from this are expected.

Financial Overview

Specialty Fashion Group had net debt of \$13.3 million at 30 June 2016 (PCP \$27.8 million), and unutilised bank facilities of \$30.6 million.

The Group's gross capital expenditure was \$18.4 million for the year (PCP \$16.3 million). Funds were predominantly spent on store refurbishment, the concession roll-out into 14 Myer locations, the opening of 28 new stores, investment in IT systems and on the integration and turnaround of Rivers.

The Group remained focussed on its omni-channel growth strategy across all brands, which supported strong online sales growth with an uplift of 42% on the PCP.

The Group's costs of doing business, as a percentage of sales during the year, reduced to 52.8% (PCP 56.0%). Despite underlying annual inflation in wages and rentals, 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 on price.

Omni-channel Operations

The Group's omni-channel strategy is built around four main pillars:

- The store network - which now consists of 1,078 physical stores, plus an additional 14 Myer concession locations
- Seven e-commerce sites
- Social media networks - which build customer engagement with our brands
- And a loyalty program - which today has more than 8 million members

28 new stores were opened and 36 stores were closed due to store rationalisation during the year.

The Group refurbished a further 15 existing stores during the year. The careful and measured approach to international new store openings continued.

Digital sales grew to \$72.8 million for the year, representing 8.8% of total revenue, an increase of 42% or \$21.6 million on the previous year. Enthusiasm for online shopping is growing across all customer demographics.

The successful rollout of the 'click & collect' initiative throughout all Australian stores during the year accelerated online sales, and is a reminder that a critical pillar of online sales success is an integrated physical store and online experience and presence. The Group is now a leading 'bricks and clicks' retailer, deeply experienced in leveraging a mix of channels to tailor outstanding customer experiences for each brand and their customers.

Gross Margin and Supply Chain Transformation

Gross margin was 55.6% for the year, compared to 58.6% for the PCP. Gross margin was impacted predominantly by the strengthening US dollar on the cost of product, and the clearance activity required to clear Winter 2016 product, following the extended unseasonably warm winter weather experienced this year.

The final phase of the integration of Rivers' supply chain into the Group is complete, with the closure of the Rivers Ballarat warehouse in February 2016. All Rivers' product replenishment and fulfilment of online sales orders are now being handled through the Group's third party facility in Sydney.

On-going supply chain transformation initiatives continue to be undertaken to assist in protecting margins. The Group is fully hedged through to June 2017.

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

The total loyalty rewards membership database exceeds 8 million members with the ability to email 5.2 million of them. Focus on expanding the Rivers' membership database has resulted in an increase to 2.1 million members during the year, with 0.9 million members being able to receive emails.

Update On Key Growth Priorities

The Group's key growth priorities remain:

- 1) Rejuvenation of existing brands across the Group;
- 2) Transformation of Rivers into a profitable and growing brand for the Group, leading in the age of omni-channel retailing; and
- 3) Measured expansion into new markets beyond Australia for City Chic.

1. Millers' Brand Rejuvenation

Millers delivered positive CSG sales for the year supported with strong online sales growth.

New in-store and online branding initiatives were well received by Millers' customers and helped deliver continued positive CSG sales for the year. The "SeeingMe" project - the brand's long-term commitment to celebrate the mature woman- launched earlier in the year, and continues to receive significant customer engagement.

The "seeingmeproject.com" is an evolving, living hub, where participants find films and inspirational interviews with like-minded women, as well as up to the minute research on topics of real interest for women aged 40+, conducted by the Group's in-house research team. (<http://seeingmeproject.com/>)

During the year, a further nine existing sites were rebranded using the new Millers design concept. Sales results have been pleasing.

Growth is expected to continue in FY17, 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 is on track to becoming a profitable brand. Operating performance continued to improve significantly. Rivers has halved its loss on the previous year and is expected to start trading profitably during FY2017 year.

Rivers' underlying EBITDA loss excludes a one off adjustment of \$1.9 million relating to the closure of the Rivers' warehouse in Ballarat.

An experienced management team is executing the turnaround strategy.

Customer response to the relaunch of ranges across all categories has been very positive. Cost-effective online marketing is making a real difference in building customer loyalty, with a big uplift in online sales and repeat purchases by loyalty rewards customers. Rivers online sales grew by 48% in the year supported by an efficient digital marketing strategy focussed to drive online sales.

Inventory quantities on hand at year end were well down on last year, reflecting significant improvement in both freshness and ageing. All problematic inventory inherited on acquisition has been cleared out of the business.

3. City Chic's Expansion

City Chic continued to successfully expand its presence both locally and internationally this year.

- Locally, City Chic commenced the roll out of 24 new concession locations into Myer during the second half of this year, with 14 concession locations fully operational at 30 June 2016. The remaining 10 locations were launched in July 2016.
- In addition to its existing presence in 60 Nordstrom stores across the USA, City Chic launched its product into 100 Macy's stores.
- Following successful product trials in the UK based retailer, Evans, City Chic has received ongoing repeat orders from this UK retailer.

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 FY17.

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

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 1,078 stores in Australia, New Zealand, USA and South Africa, 24 concession locations in Myer. 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.