
STRUCTURAL REVIEW UPDATE

SPECIALTYFASHION | GROUP



city chic

AUTOGRAPH



Millers

KATIES

crossroads



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DIVESTMENT SUMMARY

Following its Structural Review, Specialty Fashion Group (SFH) has announced a transaction to divest selected challenged businesses and retain its most profitable City Chic business

Key Takeaways

- Sale of Millers, Katies, Crossroads, Autograph and Rivers to Noni B for \$31.0m all-cash (**Divestment**), subject to customary conditions
- SFH to remain listed and retain ownership of City Chic, the most profitable brand in the portfolio with strong historical earnings growth and an attractive outlook:
 - City Chic is a market leader in the plus-size women's apparel market with strong online global sales
 - City Chic is expected to generate \$19.0m – \$20.0m Underlying (Pro-Forma) EBITDA in FY18¹
- Crystallises near-term value for SFH's capital intensive, challenged businesses:
 - \$6.2m loss-making in aggregate at an EBITDA level in the 12 months to December 2017²
- Sale proceeds to recapitalise SFH, strengthen the balance sheet and create a stronger platform for future growth
- Divestment is expected to unlock the opportunity for future distributions of fully franked dividends. The Board will confirm its intentions regarding SFH's future dividend policy at its 2018 Annual General Meeting
- IRC unanimously considers the Divestment to be in the best interests of shareholders



1. Includes a pro-forma adjustment of circa \$4.2m to reflect additional estimated support office costs for the City Chic brand for FY18F as compared to current SFH support office cost allocation

2. Based on current SFH head office cost allocation

3. Including 13 Myer concessions, as at April 2018

4. Sales contribution FY18 YTD

STRUCTURAL REVIEW PROCESS

The IRC has concluded its Structural Review of options to enhance shareholder value and has determined that the Divestment will optimise shareholder value

Independent Review Committee (IRC)

- In November 2017, the Board announced a Structural Review and established the IRC
- The IRC has considered various proposals and strategic options to improve shareholder value
- IRC considers retaining City Chic, with strong cash flow generation and earnings growth prospects, and divesting the balance of the portfolio will maximise value for shareholders

The IRC unanimously:

- believes that the Divestment optimises shareholder value
- considers the Divestment to be in the best interests of shareholders

Range of Options Considered by IRC

Whole of Company Transactions

Alternative Divestment of Brands

Capital Raising

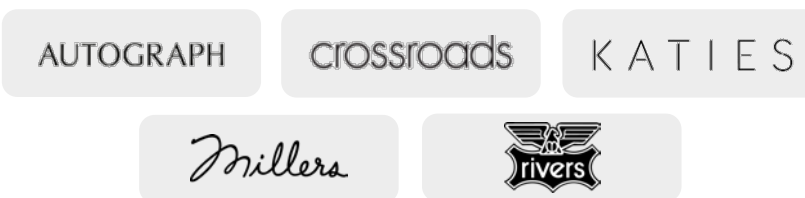
DIVESTED BRANDS SNAPSHOT

Noni B has provided an all-cash offer of \$31.0m for SFH's capital-intensive, challenged Millers, Katies, Crossroads, Autograph, and Rivers portfolio of businesses

Offer Details

Offer Price	<ul style="list-style-type: none"> \$31.0m
Consideration	<ul style="list-style-type: none"> All-cash
Structure	<ul style="list-style-type: none"> Asset sale
Conditions	<ul style="list-style-type: none"> Customary conditions precedent
Other Key Terms	<ul style="list-style-type: none"> Noni B will acquire all assets, employees and liabilities (including employees relating to Support Services functions) except for those required to support SFH Transitional services agreement to facilitate a smooth and orderly separation

Brands / Businesses To Be Divested



Stores (Mar 18)	832
Revenue (12 months to Dec 17)	\$642m
EBITDA (12 months to Dec 17)¹	(\$6.2m)
EBIT (12 months to Dec 17)¹	(\$25.7m)

Loss-making in aggregate at an EBITDA and EBIT level

1. Based on current SFH head office cost allocation

TRANSACTION BENEFITS

The Divestment will deliver a range of strategic, financial, operational and other benefits to SFH shareholders

1

Substantial Value Realised For Challenged Businesses

- Sale consideration of \$31.0m crystallises substantial value for Millers, Katies, Crossroads, Autograph and Rivers which generated an EBITDA loss of \$6.2m¹ and EBIT loss of \$25.7m¹ in the 12 months to December 2017
- Removes significant uncertainty associated with the potential earnings recovery and operational turnaround of those businesses

2

Retain High Growth City Chic Brand

- Streamlined operating model and creates singular focus on City Chic
- City Chic has consistently been SFH's best performing and most profitable business unit, driven by its market leadership, customer-led offer, innovative digital strategy, and tiered loyalty program
- The brand has a market-leading position in the plus-size women's apparel market, has a strong multi-channel offering and is well positioned to withstand headwinds facing the retail sector

3

Strengthened Balance Sheet

- Delivers \$31.0m all-cash (before transaction and separation costs), which will be used to recapitalise SFH and support City Chic's growth agenda
- Divestment of the capital intensive businesses will deliver a significant working capital benefit to SFH by relieving it from maintenance of substantial inventory levels during peak seasonal periods

4

Ability to Pay Future Fully Franked Dividends

- The Divestment is expected to unlock the opportunity for future distributions of fully franked dividends
- SFH will confirm to shareholders its intentions regarding the future dividend policy at its 2018 Annual General Meeting, expected to be held in November 2018

1. Based on current SFH head office cost allocation

RETAIN MOST PROFITABLE BUSINESS: CITY CHIC

City Chic is a market leader in the plus-size women's apparel market

Overview Of City Chic

City Chic Customer	<ul style="list-style-type: none"> Fashion-forward Curvy Young (18 – 35 years)
Targeted Tiered Loyalty Program	<ul style="list-style-type: none"> AU: 275k active customers USA: 40k active customers c.80% membership sales
Omni-Channel Strategy	<ul style="list-style-type: none"> 110 stores in Australian and NZ¹ Online contributes 37% of sales globally² (23% online sales growth in FY18 to date vs. last year) Strong global partner business through wholesale and drop-ship
Reactive and Optimised Supply Chain	<ul style="list-style-type: none"> Product repeats within 8 weeks New automated third party facility at Prestons (NSW) New third party warehouse facility in Los Angeles (USA)
Longstanding Management Team	<ul style="list-style-type: none"> Current corporate and City Chic brand leadership to be retained by SFH Phased handover from current CEO Daniel Bracken to City Chic General Manager Phil Ryan by the AGM in Nov-18 Current senior management team built the brand; average of c.10 years with City Chic

Protected From Broader Retail Trends

Trend	Why City Chic is Protected
Increased Competition <i>Intl. Competition Discounting</i>	<ul style="list-style-type: none"> Leading position in fast growing and attractive segment of women's apparel market Established loyal customer base with high repeat purchases City Chic is taking market share from international competitors in their markets
Reinvention of Traditional Retail Models <i>Shift To Digital</i>	<ul style="list-style-type: none"> Market leading online sales penetration Proven digital strategy with strong cohesion and optimised, new and profitable store portfolio Adopting innovative disruptive concepts with wholesale partners Utilises Amazon channel in USA
Power to the Customer <i>Fast-Fashion Convenience High Service</i>	<ul style="list-style-type: none"> Nimble supply chain that quickly reacts to changing demand patterns and facilitates fast turnaround of repeats for best-selling ranges Lean customer-focused model which drives buying and communications strategy

1. Includes 13 Myer concessions, as at April 2018
 2. Sales contributions reflect YTD FY18

EXECUTED OMNI-CHANNEL STRATEGY: CITY CHIC

Successful integrated multi-channel offering



110 Stores¹

56% Sales²

- Optimised store portfolio in Australia (100) and New Zealand (10), including 10 clearance stores and 13 Myer concessions
- Small format stores primarily in CBD, metropolitan and major regional shopping centres
- Testing large format stores to expand footprint and offer; identified a number of potential locations
- Current portfolio in good condition



Online Sales

37% Sales²

- Three industry-leading websites across Australia, NZ and USA
- Drop-ship model in USA drives brand recognition and sales; Macy's, Nordstrom, Lord & Taylor, Bloomingdales, Amazon
- Clearly articulated digital and CRM strategy underpinned by industry-leading logistics infrastructure and 24-hour support
- Online exclusive range provides range extension and delivers strong incremental revenue
- Successful implementation of Afterpay, driving volumes and average selling price (ASP)



Wholesale

7% Sales²

- Launched attractive wholesale model in FY15 to drive brand awareness and customer acquisition; largely produced to order which enables controlled inventory investment
- Established partnerships in the USA through Macy's (in 148 stores), Nordstrom (in 22 stores), Dia&Co, Stitch Fix, Gwynnie Bee and Amazon
- Strong and growing partnerships in the UK (ASOS and Evans) and in Germany (Zalando)
- Adopting innovative disruptive concepts through Stitch Fix, Dia and Co, Gwynnie Bee and Rent the Runway

Omni-Channel Execution

- Customer-centric channel solutions
- Store teams incentivised to promote "Click and Collect" and online sales
- Customer spending behaviour drives product selection and communications strategy
- Nimble and reactive supply chain

1. Includes 13 Myer concessions, as at April 2018
2. Sales contributions reflect YTD FY18

MARKET LEADER: CITY CHIC



COMPELLING ORGANIC GROWTH PLAN: CITY CHIC

Management focused on clear, value-accretive initiatives to support City Chic's continued high-margin growth

Pillars for Growth

Australia Online	<ul style="list-style-type: none">▪ Range extensions to capture additional market share▪ Improved in-store digital experience through “endless aisle” and “store-to-door”, enabling online sales whilst customer is in the store	<ul style="list-style-type: none">▪ Improved customer experience through faster site speed, web chat capability, improved packaging and delivery and behavioural engagement loyalty programs▪ Improved digital marketing through search engine optimisation, online marketing optimisation, behavioural learnings and other initiatives▪ Leverage significant and growing customer database
USA Online	<ul style="list-style-type: none">▪ Strong momentum in customer acquisition▪ Improved customer experience through Afterpay and 24-hour customer service	
International Wholesale	<ul style="list-style-type: none">▪ Replicate the successful USA drop-ship and wholesale growth model in the UK and Europe▪ Establish new partnership opportunities, particularly in Europe▪ Further develop existing relationships to drive volumes	
AU/NZ Store Growth	<ul style="list-style-type: none">▪ Further footprint expansion – opportunity to continue further store roll outs across Australia and New Zealand▪ Open larger format stores – successful trial in Fountaingate of a 260sqm store and there is an opportunity to further roll out nationally	
Continued Like-For-Like Organic Growth	<ul style="list-style-type: none">▪ Increase conservative lifestyle offering – attracts the conservative end of customer and meets more basic lifestyle needs through range extensions; initial trials have been successful and are continuing▪ Intimates range growth to drive further share of wallet in plus sized intimates▪ Increased purchase frequency – through improvements in segmentation and targeting	

FINANCIAL SNAPSHOT: CITY CHIC

City Chic's financial performance reflects its strong track record of revenue growth, high cash conversion and profitability

Pro-Forma Financials: City Chic

A\$m	FY16A	FY17A	12 months to Dec 2017	FY18F
Financial Performance				
Revenue	\$112.6m	\$129.0m	\$134.2m	\$138.0m – \$140.0m
<i>Revenue Growth Versus PCP</i>	26.7%	14.5%	11.2%	-
<i>Comparable Sales Growth¹</i>	23.3%	6.7%	16.6%	-
Gross Profit	\$63.1m	\$72.3m	\$72.7m	-
<i>Gross Profit Margin</i>	56.0%	56.0%	54.2%	-
Underlying Cost of Doing Business (Pro-Forma)²	\$54.7m	\$61.2m	\$58.6m	-
Underlying EBITDA (Pro-Forma)²	\$8.4m	\$11.1m	\$14.1m	\$19.0m – \$20.0m
<i>EBITDA Margin</i>	7.5%	8.6%	10.5%	-
Underlying PBT (Pro-Forma)^{2,3}	\$4.9m	\$6.3m	\$9.7m	-
Financial Position⁴				
Total Assets (Pro-Forma)	-	-	\$74.7m	-
Total Equity Interests (Pro-Forma)	-	-	\$32.6m	-
Stores				
Standalone Stores	104	102	102	-
Concessions	14	14	13	-
Total Number of Stores	118	116	115	-

1. Excluding wholesale sales

2. Includes a pro-forma adjustment of circa \$4.2m to reflect additional estimated support office costs for the City Chic brand for FY18F as compared to current SFH support office cost allocation

3. Assumes nil interest expense / income

4. Pro-Forma Financial Position includes anticipated net cash proceeds from Divestment net of transaction and separation costs

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