

ASX Announcement

26 September 2018

Appointment of Chief Executive Officer

Specialty Fashion Group (ASX: SFH) (SFG or the Company) today confirms that as previously announced on 14 May 2018 and 28 August 2018, Phil Ryan will be appointed as Chief Executive Officer (CEO) of the Company, effective 1 October 2018. Mr Ryan succeeds Daniel Bracken, who announced his intention to resign earlier in the year after helping to strategically reposition the Company.

Mr Ryan brings 25 years' experience in the retail sector and has been the General Manager of City Chic, SFG's sole remaining brand, since City Chic's inception in 2006. Mr Ryan holds a Bachelor of Business from the University of Technology Sydney and an MBA from the Australian Graduate School of Management.

SFG Chairperson, Ms Anne McDonald, said "We are delighted that Phil will take over as CEO of SFG and continue to drive the growth of the City Chic brand. Phil and his management team have been responsible for growing City Chic into a leading plus size retailer and are very well positioned to lead the company to future success."

A summary of the material terms of Mr Ryan's employment agreement is included as an Appendix to this announcement.

Daniel Bracken will step down as CEO and Managing Director on 30 September 2018. The Board thanks Daniel for his significant contribution to SFG and wish him every success in his new role as CEO of Michael Hill International Limited.

About City Chic

City Chic is a leading Australian multichannel retailer specialising in the plus-size (size 14+) women's apparel, accessories and footwear market. Its customer-led offer appeals to young, fashion-forward women. Lifestyle driven and accessible, the City Chic brand has a strong following in Australia and New Zealand, with a rapidly growing presence in North America and Europe.

City Chic's multichannel model comprises: a network of 107 stores across Australia/New Zealand; two websites operating in Australasia and USA; marketplace and wholesale partnerships with major US retailers such as Macys and Nordstrom; and a wholesale business with European partners such as ASOS, Evans and Zalando.

Investor Enquiries

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Appendix

Summary of material terms of Phil Ryan's employment agreement as Chief Executive Officer of Specialty Fashion Group Limited

Commencement	October 1, 2018
Term	No fixed term. Ongoing until terminated by either party in accordance with the employment agreement.
Notice period / Termination provisions	6 Months

Remuneration element	Details
Total Fixed Remuneration	Base salary of \$650,000 per annum plus statutory superannuation.
Short-term Incentive Plan	Up to 30% of base salary excluding superannuation, payable on delivery of agreed annual financial and other key performance indicators set, determined and payable at the Board's discretion.
Long-term Incentive Plan ("LTIP")	Up to 30% of base salary excluding superannuation. See below for detail.
Once off equity allocation ("Additional Grant")	See below for detail.

Long Term Incentives

The Board has determined that the CEO will be entitled to performance rights annually under the Company's LTIP (3 year vesting period), as well as through an up-front once off allocation (3-5 year vesting period).

Mr Ryan has led the development and growth of the City Chic brand since inception and continues to be key to the strategic repositioning of the Company. Mr Ryan is a highly experienced and successful retailer and with his deep understanding of the brand and the plus size segment will be instrumental in leading the long-standing management team and the Company to future success.

The LTIP and Additional Grant align the interests and vision of Mr Ryan and the Company over the longer term, and promote a consistent focus on long term performance and shareholder value creation under Mr Ryan's leadership. The LTIP provides for an annual allocation of performance rights, which reward the CEO for high performance and ongoing commitment over a 3 year horizon, which aligns to the Company's ongoing strategic planning cycle. The once off Additional Grant of performance rights extends to a 5 year horizon and in combination with the LTIP, recognises Mr Ryan's significant contribution to building the City Chic brand and his importance in delivering the long term growth of the Company.

Annual LTIP

The CEO will have an annual LTI opportunity of up to 30% of base salary to be delivered in performance rights under the Company's Long-Term Incentive Performance Rights Plan. Each annual grant will have a performance period of 3 years with the specific performance hurdles to be determined annually by the Board.

Key feature	Details								
Number of Performance Rights	Financial Year ending 30 June 2019 opportunity 240,740 Performance Rights (Tranche 1 Performance Rights)								
Vesting Condition	<p>The Performance Rights will be subject to the following conditions:</p> <ul style="list-style-type: none"> • <u>Vesting Condition #1</u> – continued service for 3 years commencing from grant date, with no holding lock on resulting shares; • <u>Vesting Condition #2</u> – compound annual growth rate (CAGR) in the Group’s earnings per share (EPS) during the performance period of greater than or equal to 20%. If the Group’s EPS CAGR for the performance period is less than 20%, then the vesting outcome is as follows: <table border="1"> <thead> <tr> <th>EPS CAGR across the Tranche 1 Performance Period</th> <th>Proportion of Tranche 1 Performance Rights held that will satisfy Vesting Condition #2</th> </tr> </thead> <tbody> <tr> <td>Below 5%</td> <td>Nil</td> </tr> <tr> <td>5%</td> <td>25%</td> </tr> <tr> <td>$5\% \leq \text{EPS CAGR} \leq 20\%$</td> <td>Straight line pro-rata vesting between 25% and 100% (inclusive)</td> </tr> </tbody> </table> <p>Once both of the conditions have been met, the performance rights will vest.</p> <p>EPS is measured by reference to the Group’s consolidated audited net profit before tax and may be normalised at the Board’s discretion. EPS for FY18 is based on continuing operations and is equal to \$0.075.</p>	EPS CAGR across the Tranche 1 Performance Period	Proportion of Tranche 1 Performance Rights held that will satisfy Vesting Condition #2	Below 5%	Nil	5%	25%	$5\% \leq \text{EPS CAGR} \leq 20\%$	Straight line pro-rata vesting between 25% and 100% (inclusive)
EPS CAGR across the Tranche 1 Performance Period	Proportion of Tranche 1 Performance Rights held that will satisfy Vesting Condition #2								
Below 5%	Nil								
5%	25%								
$5\% \leq \text{EPS CAGR} \leq 20\%$	Straight line pro-rata vesting between 25% and 100% (inclusive)								
Exercise	On vesting, the performance rights will be eligible to be exercised into ordinary shares. The FY19 LTIP grant does not have any exercise conditions.								
Disposal Restriction	Following exercise of the vested performance rights, the resulting shares may be traded, subject to compliance with the Company’s share trading policies.								
Cessation of Employment	All unvested performance rights will lapse and be forfeited upon cessation of employment unless the Board exercises their discretion otherwise.								

Additional Grant

The CEO will receive a once off up-front allocation of 2,400,000 Performance Rights which vest over a 3-5 year period, with performance hurdles as set out below.

Key feature	Details
Overview	<p>The once off allocation of performance rights under the Additional Grant will be delivered in three tranches with each tranche consisting of different vesting conditions (detailed below). The tranches are to be split as follows:</p> <ul style="list-style-type: none"> • Tranche 2A: 25% weighting • Tranche 2B: 25% weighting • Tranche 2C: 50% weighting
Number of Performance Rights	<p>2,400,000 Performance Rights split into three tranches as follows:</p> <ul style="list-style-type: none"> • Tranche 2A: 600,000 Performance Rights • Tranche 2B: 600,000 Performance Rights • Tranche 2C: 1,200,000 Performance Rights

Vesting condition	<p>The Performance Rights will be subject to the following vesting conditions:</p>									
	<p>Tranche 2A:</p>									
	<ul style="list-style-type: none"> • <u>Vesting Condition</u> – continued service for 3 years commencing from grant date, with no holding lock on resulting shares. 									
	<p>Tranche 2B:</p>									
	<ul style="list-style-type: none"> • <u>Vesting Condition #1</u> – continued service for 3 years commencing from grant date, with no holding lock on resulting shares. • <u>Vesting Condition #2</u> – Group EPS performance in accordance with the following schedule: 									
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Group EPS for the year to 30 June 2021</th> <th style="width: 50%;">Proportion of Tranche 2B Performance Rights held that will satisfy Vesting Condition #2</th> </tr> </thead> <tbody> <tr> <td>Below \$0.0975 (1.3x FY18 EPS)</td> <td>Nil</td> </tr> <tr> <td>$\\$0.0975 \leq \text{EPS} < \\0.1050 (1.4x FY18 EPS)</td> <td>50%</td> </tr> <tr> <td>$\text{EPS} \geq \\$0.1050$</td> <td>100%</td> </tr> </tbody> </table>	Group EPS for the year to 30 June 2021	Proportion of Tranche 2B Performance Rights held that will satisfy Vesting Condition #2	Below \$0.0975 (1.3x FY18 EPS)	Nil	$\$0.0975 \leq \text{EPS} < \0.1050 (1.4x FY18 EPS)	50%	$\text{EPS} \geq \$0.1050$	100%		
Group EPS for the year to 30 June 2021	Proportion of Tranche 2B Performance Rights held that will satisfy Vesting Condition #2									
Below \$0.0975 (1.3x FY18 EPS)	Nil									
$\$0.0975 \leq \text{EPS} < \0.1050 (1.4x FY18 EPS)	50%									
$\text{EPS} \geq \$0.1050$	100%									
<p>EPS is measured by reference to the Group’s consolidated audited net profit before tax and may be normalised at the Board’s discretion. EPS excludes the share based payment expense associated with the Tranche A and Tranche 2B Performance Rights.</p>										
<p>Tranche 2C:</p>										
<ul style="list-style-type: none"> • <u>Vesting Condition #1</u> – continued service for 5 years commencing from grant date, with no holding lock on resulting shares. • <u>Vesting Condition #2</u> – Group EPS performance in accordance with the following schedule: 										
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Group EPS for the year to 30 June 2023</th> <th style="width: 50%;">Proportion of Tranche 2C Performance Rights held that will satisfy Vesting Condition #2</th> </tr> </thead> <tbody> <tr> <td>Below \$0.1125 (1.5x FY18 EPS)</td> <td>Nil</td> </tr> <tr> <td>$\\$0.1125 \leq \text{EPS} < \\0.1200 (1.6x FY18 EPS)</td> <td>50%</td> </tr> <tr> <td>$\\$0.1200 \leq \text{EPS} < \\0.1275 (1.7x FY18 EPS)</td> <td>75%</td> </tr> <tr> <td>$\text{EPS} \geq \\$0.1275$</td> <td>100%</td> </tr> </tbody> </table>	Group EPS for the year to 30 June 2023	Proportion of Tranche 2C Performance Rights held that will satisfy Vesting Condition #2	Below \$0.1125 (1.5x FY18 EPS)	Nil	$\$0.1125 \leq \text{EPS} < \0.1200 (1.6x FY18 EPS)	50%	$\$0.1200 \leq \text{EPS} < \0.1275 (1.7x FY18 EPS)	75%	$\text{EPS} \geq \$0.1275$	100%
Group EPS for the year to 30 June 2023	Proportion of Tranche 2C Performance Rights held that will satisfy Vesting Condition #2									
Below \$0.1125 (1.5x FY18 EPS)	Nil									
$\$0.1125 \leq \text{EPS} < \0.1200 (1.6x FY18 EPS)	50%									
$\$0.1200 \leq \text{EPS} < \0.1275 (1.7x FY18 EPS)	75%									
$\text{EPS} \geq \$0.1275$	100%									
<p>EPS is measured by reference to the Group’s consolidated audited net profit before tax and may be normalised at the Board’s discretion. EPS excludes the share based payment expense associated with the Tranche 2C Performance Rights.</p>										
Exercise	<p>On vesting, the performance rights will be eligible to be exercised into ordinary shares. The Additional Grant does not have any exercise conditions.</p>									
Disposal restriction	<p>Following exercise of the vested performance rights, the resulting shares may be traded, subject to compliance with the Company’s share trading policies.</p>									
Cessation of Employment	<p>All unvested performance rights will lapse and be forfeited upon cessation of employment unless the Board exercises their discretion otherwise.</p>									