SPECIALTYFASHION | GROUP

ASX Announcement/Media Release

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Specialty Fashion Group Full Year Guidance and Update

Specialty Fashion Group Limited (ASX: SFH) provides guidance for the year ended 30 June 2012, and an update of its business.

FY12 Results Guidance

Revenue for the full year ended 30 June 2012 was $573 million and underlying comparable store sales were 3.4 per cent lower than the prior year.

Revenue for the six month period to 30 June 2012 was $265 million, 1.4 per cent higher than revenue from the Group for the second half of the prior year, due to new store growth in prior periods. Comparable store sales for the half year were 2.3 per cent lower than the second half of the prior year, reflecting the difficult trading conditions throughout the period.

At this time Specialty Fashion Group expects earnings before interest, taxation, depreciation and amortisation (EBITDA) for the full year ended 30 June 2012 to be within the range of $21 million to $22 million. The company had not previously provided EBITDA guidance for the 2012 financial year.

Strong Balance Sheet

Specialty Fashion Group is in a strong financial position, with net cash of $4 million at 30 June 2012. The Group has comfortably met its banking covenants and had available undrawn debt facilities of $78 million at year end.

The Company's capital expenditure for the second half year was $5 million and $14 million for the full year. The capital expenditure includes $3 million invested in IT systems, mostly to support the Group's omni-channel strategy, and $10 million was in relation to new stores and refurbishments.

Specialty Fashion Group CEO, Gary Perlstein, said: *"Industry-wide discounting remains unchanged and the reductions in the cash rate have had little effect on consumers' discretionary spending, however the opportunities to innovate and enhance the omni-channel experiences for our customers are exciting. Some tailwinds are expected with respect to the containment of product costs and some other costs of doing business, and we are very focused on recalibrating the Group to ensure the company thrives in an industry that is undergoing permanent structural change."*

"While Group revenue has been impacted by the difficult retail environment, the company has successfully made progress in leveraging its customer database, with online revenue growing materially and expected to contribute to revenue and profitability in future years".

Business Improvements update

The Group is delivering improvements to the business as part of its long-term strategy to be an omni-channel retailer. The improvements in the second half include:

<u>Transformation of Supply Chain:</u> The Group increased its gross margin to 58.7% in the second half, an improvement of 109 basis points compared with the first half of the year. The company continues to target margin expansion of approximately 150 basis points through to December 2012, with benefits from improvements in purchase commitments for the new financial year and the implementation of a first tier planning system being realised. The Group has also extended its hedging program through to the third quarter of FY13, achieving a more favourable average USD exchange rate of $1.01 for the period.

<u>Leverage Customer Relationship Management Capabilities:</u> The Group has a team dedicated to providing customer insights and engagement support to its brands, enabling all direct marketing support to be delivered in-house. In December 2011, a new software platform was implemented, enabling more sophisticated analysis of the company's customer data. The results in customer engagement have been promising; email campaign responses are well above industry standards. Email-valid customer members grew from 1.7 million to 2.1 million during the second half. The company's total customer membership database comprises 7.3 million members.

Online Growth

The Group's online sales for the second half of FY12 tripled in comparison to the same period in FY11, growing to $15 million for the full year, or 2.6 per cent of total revenue. The company continued to invest in its online businesses, and remains focused on achieving its target of 15 per cent of sales from online within three years. During the second half, substantial progress was made in the Group's online strategy, including:

<u>Growth of Brands' Online Stores</u>: A new multi-branded e-commerce platform was implemented, and the online logistics operation was expanded to a new 5000 square metre pick-and-pack facility. Both of these improvements are expected to support growth as well as drive cost efficiencies for FY13 and future years.

<u>Launch of *Stylefix*</u>: As guided earlier in the year, the Group launched *Stylefix,* a new multi-brand online apparel and soft goods business featuring both local and global brands, on 2 July 2012. Through leveraging the Group's store network and customer member database, *Stylefix* is in the process of building its own customer base. More information regarding the brand's progress will be provided at the full year results announcement.

Mr Perlstein stated: *"Our customers are enjoying their online shopping experiences, and there is significant potential for further growth in online as we migrate more of our solely in-store customers to become omni-channel shoppers. Our experience is that enthusiasm for online shopping is across all demographics. I'm confident the proactive and strategic investments we have made and will continue to make in our technology and organisation will enable us to reach our target of 15 per cent of sales through online within three years."*

Physical Store Portfolio Rationalisation

As planned, the Group's store portfolio decreased to 893 stores at 30 June 2012, following the opening of 5 stores and closure of 21 stores during the second half of the year. The rationalisation of underperforming stores will have a positive impact on the profitability of the Group in FY13.

While the Company has been able to negotiate a decrease in rent for some stores, the Group intends to continue to take advantage of the opportunity to reduce its costs of doing business in a high retail rental environment through further store closures or recalibrations in store size, as online revenue becomes an increasingly important component of the business.

The estimates contained in this update in relation to the year ended 30 June 2012 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 full year results which are scheduled to be released on 27 August 2012.

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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, La Senza, and Stylefix. The company operates 893 stores in Australia and New Zealand, 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.lasenza.com.au, www.stylefix.com.au and in the USA at www.citychiconline.com.