

SPECIALTY FASHION | GROUP

ASX Announcement/Media Release

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Specialty Fashion Group Announces Full Year Results

Specialty Fashion Group Limited (ASX: SFH) (the Group) announces financial results for the full year ended 30 June 2013, and provides an update on FY2014.

Profit Increases

Revenue for the full year ended 30 June 2013 was \$569.5 million, 0.5 per cent lower than revenue from the prior year, reflecting underlying positive comparable store sales growth of 0.4 per cent and a net decrease of seven stores. The Group delivered Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) of \$41.1 million, compared with EBITDA for the prior year of \$21.7 million.

Net profit for the year was \$13.0 million, an improvement from a net loss of \$2.8 million reported for the prior year. The company has declared a final dividend of 2 cents per share, fully franked.

Gary Perlstein, Specialty Fashion Group's CEO, said: *"Specialty Fashion Group grew profit in FY2013, despite difficult economic conditions that affected the entire retail industry, particularly during the second half. This improvement is in large part due to significant operating enhancements that drove a record gross margin, along with flat costs of doing business. We are pleased with the progress we have made with our omni-channel strategy, with online becoming an increasingly important contributor to future growth."*

Strong Balance Sheet

Specialty Fashion Group ended the year in a solid financial position, with net cash of \$38.6 million at 30 June 2013, compared with net cash of \$4.1 million at 30 June 2012, the highest in seven years. The Group's capital expenditure for the second half of the year was \$7.3 million, and \$13.5 million for the full year, which compares with \$14.7 million in FY2012.

Gary Perlstein, said: *"Strong operating cash flows and careful investments have meant we ended the year with a strong balance sheet, leaving Specialty Fashion well positioned to invest in growth through physical and digital channels."*

Note: A reconciliation of EBITDA to profit before tax is provided in the appendices of the investor presentation, also announced 26 August 2013.

Business Improvements Update

The Group continues to deliver business improvements as part of its long-term strategy to be an omni-channel retailer. The improvements in the past financial year include the following.

Transformation of Supply Chain: A record gross margin of 61.8 per cent was achieved for the full year, an improvement of 376 basis points compared with the prior year. The Group achieved a gross margin of 61.2 per cent in the half, an improvement of 256 basis points compared with the second half of the prior year. This result has been achieved from reduced product cost prices and reduced freight costs, which are the outcome of the investments made in transforming the Group's supply chain to a design and direct sourcing model. The Group also reaped the benefits of the decrease in cotton prices as reflected in fabric costs, and a more favourable average USD exchange rate of \$1.01 for the year. The Group has extended its hedging program through to the fourth quarter of FY2014, achieving an average USD exchange rate of \$0.95 for the year, but expects to maintain margins through further benefits derived from direct sourcing.

Leverage Customer Relationship Management Capabilities: The investments made in a dedicated in-house customer insights team and CRM platform continued to drive results in customer engagement during the year. Email campaign responses increased as more sophisticated customer segmentation was adopted, and were well above industry standards. Email-valid customer members grew from 2.5 million to 2.8 million during the half. The Group's total customer membership database comprises more than 7 million members.

Minimising Inflation of Costs of Doing Business: The Group's costs of doing business for the year were just \$0.1 million higher than for the prior year. The costs of doing business for the half were \$1.7 million lower than for the second half of the prior year despite underlying annual inflation in wages and rentals being between 3 and 4 per cent. Rental savings were achieved by reducing base rentals of renewed leases and exiting leases of underperforming stores. Additionally, changes in store rostering were implemented to mitigate the impact of wage inflation.

Award Winning Omni-channel Operations

The Group's online sales grew to \$10.6 million for the second half of the year, or 4.1 per cent of total revenue, and in FY2013, grew 50% to \$21.9 million, or 3.8 per cent of total revenue. The Group's progress was recently recognised by the Australian Retailers Association, with the Group awarded the "Australian Multichannel Retailer of the Year 2013" award.

The Group's physical store portfolio was 886 stores at 30 June 2013, following the opening of 40 stores and closure of 47 stores during the half year. The rationalisation of underperforming stores is ongoing; as vacancies increase, the opportunities to open new stores that offer attractive investment returns is also increasing.

Outlook

The Group expects to drive further operational improvements in FY2014 through continued focus on our omni-channel strategies, customer relationship management and the supply chain. However, the Group remains very cautious as to the extent of organic growth that may be achieved at the current time given the ongoing lack of consumer confidence in Australia. Management continues to explore all options to grow the Specialty Fashion Group, and further information on the Group's strategy will be provided during the current financial year.

ENDS

INVESTOR ENQUIRIES:

Melinda Nolan
EA to Alison Henriksen (Chief Financial Officer)
Specialty Fashion Group
(02) 8303 7928

MEDIA ENQUIRIES:

Dudley White or Catherine Suen
MAGNUS Investor Relations + Corporate
Communication
(02) 8999 1010

About Specialty Fashion Group

Specialty Fashion Group is the largest specialty retailer of women's fashion in Australasia, through Millers, Katies, Crossroads, Autograph, and City Chic. The company operates 886 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, and in the USA at www.citychiconline.com.