

# SPECIALTY FASHION | GROUP

*A*UTOGRAPH **city chic** crossroads *Katies Millers*



ACQUISITION OF RIVERS AUSTRALIA

28 November 2013

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# CONTENTS

1. Executive Summary
2. Rivers Overview
3. Strategic Rationale
4. Acquisition Terms & Funding



# EXECUTIVE SUMMARY

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## ACQUISITION OF AN ICONIC BRAND

- Specialty Fashion Group has agreed to acquire the business and assets of Rivers Australia for a purchase price of \$5M cash.
  - Assets acquired on a cash free basis and include inventory, tangible and intangible fixed assets
  - Liabilities assumed include trade finance debt, trade creditors and accruals, provisions for employee entitlements
  - All Rivers employees will be offered employment by SFG
- Rivers' working capital requirements will be funded through a trade finance facility, drawn down to \$27M at acquisition.
- Rivers' FY14 revenue is estimated to be \$180M, delivered through its portfolio of 160 stores and online store. The brand's FY13 EBITDA was 5% of revenue. Significant cost savings of approximately \$10M expected to be realised on an annualised basis by FY15, to be offset by investment in resource of approximately \$4M (annualised) to ensure the delivery of operational improvements and growth of Rivers.
- The acquisition is earnings accretive, with further guidance to be given at the Group's half year results.

## STRATEGIC RATIONALE

- Enhances SFG's market leading position in the mature, value segment of specialty fashion and footwear retail.
- Marks SFG's entrance into value footwear, men's and children's , increasing share of wallet of new and current customers.
- Category and store portfolio expansion; leverage of customer insights, production, design and digital capabilities all present exciting growth opportunities.



The image features a dark wood-grain background with a large, faint, light-colored logo of a winged figure. Overlaid on this is the word "RIVERS" in large, bold, white, sans-serif capital letters, slanted upwards. Below "RIVERS" is the text "CLOTHING & FOOTWEAR MERCHANTS" in a smaller, white, sans-serif font, also slanted upwards. A horizontal dotted line is positioned below the text.

# RIVERS

CLOTHING & FOOTWEAR MERCHANTS

# RIVERS

## OVERVIEW

### A RICH HERITAGE

- Founded 28 years ago, as a shoe manufacturer in Ballarat
- Brand expanded through wholesale
- Retail business developed in early 1990s
- Expanded from shoes to apparel and accessories
- Moved from full service specialty retail to current format of self service stores

### STRONG BRAND POSITION

- Unique tone of voice – Value, Comfort & Quality
- Variety and depth of range – apparel (43%), footwear (46%) and accessories for men (42%), women (46%) , kids
- 40 plus value conscious customer – Men and Women
- Competes with DDS, Best & Less, Lowes, Payless, Ed Harry, Millers

### EXPERIENCED TEAM

- Approx. 1000 employees, high years of service
- Unusual expertise in footwear
- Direct sourcing capabilities
- Culture of entrepreneurialism and innovation
- Aussie values of openness and honesty

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### SIGNIFICANT STORE PORTFOLIO

- 160 stores across Australia, 1 online store
- Average Retail store size is 652m<sup>2</sup>
- Majority of stores are destination sites
- 60% regional, 40% metro



STRATEGIC  
RATIONALE

WHY,  
WHY,  
WHY,  
RIVERS  
CLOTHING  
COMFORTABLE?

# RIVERS

## STRATEGIC RATIONALE

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### RIVERS IS A STRATEGIC FIT

- **Enhances SFG's position in the Australian mature, value segment** - with minimal overlap of other SFG brands
- **Extends SFG's customer reach to men and kids** – opportunity to acquire additional share of wallet from new and current customers
- **Extends SFG's capabilities into menswear and footwear** – opportunity for extension through Rivers and other SFG brands

### OPPORTUNITIES TO REINVIGORATE AND GROW

- **Business improvements in retail** - implementation of SFG's buying and planning processes and controls can optimise Rivers' product selection and allocation, leading to improved sales and reduced inventory.
- **Focused overheads management** – savings of approximately \$10M per annum identified. \$4M to be invested in new resources to ensure deliver improvement in profitability and growth.
- **Opportunity to increase store portfolio** – potential to grow to 220 stores.
- **Leverage SFG's customer database** – through the 7M strong database and customer insights capabilities, SFG can directly market to its customers on behalf of Rivers and develop its loyalty program. This will drive savings in advertising spend in the medium term.
- **Accelerate digital growth** – Online sales of \$6M have the potential to grow significantly through adopting SFG's omnichannel strategy and resources.
- **Leverage of SFG's scale** – opportunities exist to leverage SFG's scale with product suppliers and landlords to improve sourcing and property rental for Rivers.



# RIVERS

## INTEGRATION

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### **PHASE 1 – REINVIGORATE ( REMAINDER OF FY14)**

- Dedicated resources committed to ensure:
  - improvement in brand performance as well as delivery of overhead savings
  - the cultural as well as structural integration of Rivers into the Group
- Recruitment of additional planning resource, implementation of processes and controls within these areas
- Enhanced financial control to improve visibility and management of trading, costs and cash flows
- Alignment of Rivers support functions with Group to leverage opportunities in product sourcing, rentals, advertising, logistics

### **PHASE 2 – GROWTH (FY15/FY16)**

- Implement brand repositioning through better merchandising (inventory mix, volume and pricing)
- Develop Rivers omnichannel strategy, driving online growth and loyalty program
- Rollout category cross-sell opportunities
- Invest in store growth opportunities
- Integrate supply chain and logistics to provide one solution across the Group
- Leverage IT, rationalise across Group where applicable



# TERMS AND FUNDING

# TERMS & FUNDING

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- The business and net assets of Rivers were acquired by Specialty Fashion Group Ltd
- The purchase price of \$5M cash was funded from SFG's cash reserves
- The working capital requirements of the Rivers business will be funded by a trade finance facility, drawn to the extent of \$27M on acquisition date
- The purchase price was at a discount to the book value of assets acquired. Fair value accounting will be applied to recognise the net assets of Rivers in the Group accounts
- The costs associated with the acquisition are estimated to be \$650K