ASX Announcement

25 February 2014

Specialty Fashion Group Announces Half Year Results

Specialty Fashion Group Limited (ASX: SFH) (the Group) revenue for the half year ended 31 December 2013 was $324.3 million, 4.2 per cent higher than revenue from the previous corresponding period (pcp). A 4.9 per cent decrease in comparable store sales growth was offset by sales growth from new stores in Australia and abroad, as well as Rivers' acquired portfolio of stores.

The Group delivered Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) of $31.2 million, which included a record gross margin of 63.6 per cent, 120 basis points higher than the previous corresponding period.

Net profit for the half year was $16.2 million, compared with $18.0 million for the previous corresponding period, and the Group concluded the half with $22.6 million net cash. The company has again declared an interim dividend of 2 cents per share, fully franked.

Gary Perlstein, Specialty Fashion Group's CEO, said: *"The first half of the year ended well with positive comparable sales growth in December. However, the negative trend experienced earlier in the season impacted on the overall comparable sales growth for the half.*

"To ensure future sustainable growth we initiated a long-term strategy in 2013 of increased investment in our brands and new stores, in order to complement our ongoing business improvements in supply chain and customer relationship management. The key to success is to compete through our brands' product differentiation and customer engagement, rather than through discounting, thereby growing margins and sales simultaneously in a competitive retail environment.

"The investments made are starting to deliver returns. We've had a good start to the present half, continuing to achieve positive comparative sales growth in January and February."

Note: A reconciliation of EBITDA to profit before tax is provided in the appendices of the investor presentation, also announced 25 February 2014.

Solid Balance Sheet Funds Investment

Specialty Fashion Group ended the half year in a solid financial position, with net cash of $22.6 million at 31 December 2013. The strong balance sheet has allowed the Group to implement its recent investment strategy and the Group's capital expenditure for the half year was $13.1 million, which reflected the opening of 52 new stores, including several outside of Australia.

Gary Perlstein, said: *"The Group continues to have strong operating cash flows and is well positioned to continue the stated strategy of investing in our brands, new stores and business improvement processes. In addition to funding our investment program, strong cash flows and a successful strategy of aggressive promotions to clear Rivers' old inventory also allowed the Group to immediately reduce the utilisation of the working capital facility we obtained at the time of Rivers' acquisition."*

Rivers

The integration of Rivers into the Group progresses well and the focus in the month after the acquisition was to maximise trade during the Christmas period, which was successfully achieved through changes in the brand's inventory management and promotion tactics. We anticipate that Rivers' buying, planning and marketing teams will be fully integrated with the Sydney operations within six months.

A discount on acquisition of $4.6 million and costs in relation to the acquisition of $1.3 million are reflected in the EBITDA result for the half.

Millers

Millers is the Group's largest and most mature brand, and a significant investment program to rejuvenate the brand was initiated nine months ago. The investment program has included the recruitment of a highly experienced leadership team that has been tasked to upgrade every facet of the brand's operations. The return from these investments is starting to be realised; since December, Millers has experienced positive comparable store sales growth and higher margins, and further growth is expected over the remainder of the year. Additional costs of $2.6 million to support this strategy were incurred during the half.

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 half year include the following:

<u>Supply Chain Transformation:</u> A record gross margin of 63.6 per cent was achieved for the half year, 120 basis points higher than the first half of prior year. Transformation of the Group's supply chain to a design and direct sourcing model continued to derive benefits, especially through achieving higher selling prices.

<u>Leverage Customer Relationship Management Capabilities:</u> The investments made in a dedicated in-house customer insights team and CRM platform continued to drive results in customer engagement during the half year. Email-valid customer members grew to 3.1 million during the half. The Group's total customer membership database comprises more than 7 million members.

Managing the Costs of Doing Business: The Group's costs of doing business for the year were $21.5 million higher than for the first half of prior year, of which $10.1 million were Rivers' costs of doing business that are new to the Group. Unavoidable inflation in rentals and wages of $4.2 million was offset to a large degree by further savings achieved through rental renewals and exits of $2.9 million. There were deliberate incremental investments made in Millers (as explained above), and the development of the other brands totalling $4.3 million, mostly reflected in an increase in headcount and the associated costs of recruitment. Incremental costs associated with omnichannel growth, both stores and online, were $3.5 million.

Omni-channel Operations

The Group's online sales grew to $14.2 million for the half year, or 4.4 per cent of total revenue – an increase of 26 per cent on the previous corresponding period. Further growth is expected over the coming months, following the introduction of "click & collect" and iPad rollouts to all stores in the past six months.

The Group has taken advantage of an improvement in the number of new store opportunities that offer attractive investment returns in Australia. The Group's total physical store portfolio grew to 1091 stores at 31 December 2013, following the opening of 52 new stores and closure of 6 stores during the half year, as well as the addition of 159 Rivers stores.

We are also focused on assessing and pursuing new store opportunities beyond Australia. Following considerable market research and analysis, during the half the Group opened six Autograph and Crossroads stores in New Zealand, and its first City Chic store in South Africa.

Outlook

The Group has achieved positive comparative sales growth in January and February.

The focus for the remainder of FY14 is to:

- Execute the integration of Rivers, thereby establishing a platform for growth of this brand;
- Continue Millers' rejuvenation program;
- Assess further expansion of the Group's store portfolio, both in Australia and abroad.

We anticipate that our core strategies of continual business improvements and omni-channel growth will ensure ongoing benefits to the Group. We believe the key to success will be to compete for increased sales and improved margins through product differentiation and customer engagement of our brands rather than discounting prices. In addition, the Group is also assessing the benefits of a focused and measured entry into certain retail markets beyond Australia that would provide growth opportunities for our brands.

ENDS

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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 and Rivers. The company operates 1091 stores in Australia, New Zealand, and South Africa 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.rivers.com.au, www.citychic.com.au, and in the USA at www.citychiconline.com.