SPECIALTYFASHION | GROUP

FIRST HALF YEAR REPORT 2014

Millers Katies crossroads city chic Autograph rivers

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Agenda

H1FY14

Half Year Summary

- Pleasing end to the half, however challenging retail conditions experienced earlier in the period
- Revenue $324.3m, EBITDA $31.2m, NPAT $16.2m, basic EPS 8.4 cents, interim dividend 2 cents
- 4.2% Revenue growth, underlying CSG of -4.9%
- Growth in online sales to $14.2m for the half ($11.3m in H1FY13), 4.4% of total revenue
- Record gross margin at 63.6% for the half, 120 basis points higher than H1FY13
- Solid financial position with net cash of $22.6m, reduction of $10.5m in Rivers facility since acquisition
- Rivers integration progressing to plan. A net discount on acquisition of $3.3m reflected in the EBITDA result for the half
- Investment program in Millers underway to rejuvenate and strengthen the brand’s position
- Attractive investment opportunities resulted in 52 new store openings. 1091 stores in total at end of half including 159 acquired Rivers stores
- Good start to H2FY14, with positive comparable sales growth in January and February

Business Overview

GARY PERLSTEIN, CEO

The half in review

Economic Climate

Economic uncertainties and retail discounting challenges

- Less than expected wage increases and the drop in the Australian dollar have fuelled continued consumer caution
- Cash rate reductions have provided some relief to consumers, however no sustained increase in retail sector discretionary spend in the value segment experienced as yet

Aussie dollar

- Lower domestic interest rates and slowdown in economic growth in trading partner countries, weighing down on Aussie dollar performance
- USD hedge rates achieved for the half of $0.99 (H1FY13 $1.01). H2FY14 and H1FY15 fully hedged at an average rate of $0.91

Product costs

- Gross margin benefiting from decreasing cotton prices as reflected in fabric costs. Favourable hedge rates achieved in H1FY14, but lower rates to be incurred for foreseeable future
- Cotton call options hedging against input cost inflation in place until March 2015, but expect prices to remain stable
- Wage inflation in China ongoing

The half in review

Margin improvement and enhanced customer engagement

Transformation of supply chain

- Record gross margin achieved of 63.6% for the half, 120 basis points higher than first half of prior year
- Ability to command higher selling prices as a direct benefit from the Group's investment and transformation to a design and direct sourcing model
- Gross margin expected to be impacted by lower Aussie dollar, although higher selling prices should be achieved through better product differentiation

Leveraging customer relationship management capabilities

- The dedicated in-house customer insights team and CRM platform is enabling the innovation and evolvement of customer engagement, which continues to yield benefits and is well above industry standards
- Email valid customer membership grew to 3.1 million in the half

The half in review

Omni-channel and CODB focus

Omni-channel operations

- 26% growth in online sales to $14.2m for the half compared with H1FY13, 4.4% of total revenue
- “Click & collect” and the rollout of iPads in stores have been introduced to expand customer purchasing options and the sale experience. Further growth in online is expected
- 1091 stores at end of December with 52 new stores, 6 closures, 159 Rivers stores acquired and 5 store refurbishments in the half year
- Retail vacancies continue to provide opportunities for higher investment returns on new and renewed store leases
- Measured international expansion is also a focus with our Autograph and Crossroads brands opening 6 new stores in New Zealand, and our first City Chic store opened in South Africa in October

Managing the CODB

- Increase in costs of doing business for the half of $21.5m largely due to Rivers CODB of $10.1m, underlying inflation of rental and wages $4.2m, and omnichannel growth of $3.5m
- Brand investment and development costs $4.3m in additional CODB primarily in relation to teams and associated recruitment costs
- Rental savings of $2.9m achieved by reducing base rentals on renewed leases and exiting underperforming stores

The half in review

Brand investment

Rivers acquisition

- Final purchase price of $3.9m with a fair value of assets of $8.5m gave rise to $4.6m discount on acquisition. Net discount of $3.3m after transaction costs recognised in the half year EBITDA result
- Aggressive promotion tactics in December to clear old stock successfully delivered revenue of $26.6m and $10.5m reduction in acquired working capital facility
- Integration progressing as expected. Buying, planning and marketing to move to Sydney. Recruitment underway of 30 plus positions

Millers rejuvenation

- Significant investment program undertaken to rejuvenate and strengthen the brand to combat increased competition in the value segment of the market
- Key focus on investing in highly experienced team that possess the right capabilities to completely revamp and rethink every facet of the brands operations to ensure ongoing growth. $2.6m in costs have been invested to support the strategy, impacting EBITDA for the half
- Benefits are already being reaped with positive comparable store sales growth being experienced by the brand since December, driven by higher achieved selling prices

Financial Analysis

ALISON HENRIKSEN, CFO

Group Trading

Half Year Ended 31 Dec 2013

- Revenue growth driven by new store sales, in addition to Rivers' acquired store portfolio. Underlying negative 4.9% (2.0% H1FY13) comparable store sales growth overall for the half
- Higher gross margin achieved through upward price point migration facilitated directly by the transformation of the supply chain to a design and direct sourcing model
- USD purchases made at average rate of $0.99 (H1FY13 $1.01)
- CODB $21.5m higher than first half of prior year primarily due to the following:
  - $10.1m of Rivers' CODB
  - $4.2m inflation (offset by $2.9 rental savings)
  - $3.5m omni-channel growth
  - $4.3m investments in brands
- Net discount on River's acquisition $3.3m
- $1.9m decrease in depreciation and impairment charge due to lower capex spend in the prior period
- Effective tax rate of 24.2% due to discount on acquistion being exempt

	H1FY14 $'000	H1FY13 $'000	Change %
Revenue	324,281	311,171	4.2%
Gross Profit	206,099 63.6%	194,014 62.4%	6.2%
EBITDA	31,178 9.6%	37,190 12.0%	(16.2%)
EBIT	21,757	26,006	(16.3%)
Profit/(Loss) before income tax	21,421	25,666	(16.5%)
Net profit/(loss) after tax	16,229	17,970	(9.7%)
Basic earnings per share (cents)	8.4	9.3	(9.7%)

Group Cash Flow

Half Year Ended 31 Dec 2013

- Freed up working capital from reduction in Rivers inventory in December
- Ongoing management of supplier terms
- Total capex spend of $13.1m primarily for new stores offset by proceeds on sale of building and motor vehicles of $1.1m
- $0.9m invested in IT systems supporting business strategies
- Net $2.4m borrowings repaid in the half. $26.3m outstanding debt at 31 December 2013
- Net cash position of $22.6m (H1FY13 $45.6m)

	H1FY14 $'000	H1FY13 $'000	Change %
EBITDA	31,178	37,190	(16.2%)
Net working capital	(912)	7,675	(114.9%)
Net interest	(336)	(340)	(1.18%)
Taxes	(1,228)	1,642	(174.8%)
Operating cash flow	28,702	46,167	(37.8%)
Acquisition of Rivers	(3,889)	-	-
Net capex(1)	(12,043)	(4,631)	160.1%
Free cash flow	12,770	41,536	(69.3%)
Borrowings	(2,439)	(6,500)	(62.5%)
Net cash flow	10,331	35,036	(70.5%)

(1) Total capex of $13.1m offset by proceeds on sale of $1.1m (H1FY13 capex of $6.2m offset by $1.5m proceeds on sale)

Financial Health

Strong Balance Sheet

- Solid net cash of $22.6m
- $70m bank loan facilities and $8m asset finance facility available – $49.2m unused at 31 December 13
- Current average interest rate exposure 4.26%
- Bank loan facilities have staged maturities to December 2015
- Bank covenants met
- Interim dividend for the half of 2 cents, fully franked
- Record date of 17th March, payment date of 28th March

Outlook

GARY PERLSTEIN, CEO

Outlook

Investing in the future

- Good start to H2. Positive comparative store sales growth experienced 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
- Seek to continue to improve sales growth and achieve higher margins through brand differentiation and offering, as opposed to discounting
- Continued operating improvements expected for remainder of FY14 from historical initiatives

Appendices

EBITDA Reconciliation

Half Year Ended 31 December 2013

	H1FY14 $'000	H1FY13 $'000
Profit before tax	21,421	25,666
Interest expense	604	488
Interest revenue	(268)	(148)
EBIT	21,757	26,006
Depreciation(1)	9,268	11,184
Revaluation of options(2)	153	-
EBITDA	31,178	37,190

(1) Depreciation includes an impairment credit of $126k in H1FY14 and an impairment charge of $0.6m in H1FY13
(2) Cotton call options taken out during the year to protect against rising cotton prices. Revaluation represents mark to market of cotton call options at 31 Dec 2013

Appendix 4D Reconciliation

Rental, wages, and other expenses

	Rent $'000	Wages $'000	Other expenses $'000	Total $'000
H1FY13	56,098	75,465	25,113	156,676
Store growth	864	1,056	622	2,542
Inflation(1)	2,244	1,962	-	4,206
Rent savings(2)	(2,939)	-	-	(2,939)
Investment in Millers(3)	-	2,099	493	2,592
Investment in other brands(3)	-	1,181	533	1,714
Rivers(4)	2,157	3,521	4,387	10,065
International(5)	-	82	672	754
Ecommerce(6)	-	106	805	911
Other	-	282	1,343	1,625
H1FY14	58,424	85,754	33,968	178,146

(1) Rent 4%; wages 2.6%
(2) Lease renewal and rent incentive savings
(3) Investments in brand team, associated recruitment and brand development costs
(4) Rivers costs of doing business from 28 November to 31 December
(5) Research and start up costs associated with international expansion
(6) Costs associated with growth in the volume of online sales

Store Movements

Half Year Ended 31 December 2013

	Stores 1 July 13	New/ acquired	Closed	Stores 31 Dec 13	Stores Aus	Stores NZ	Stores South Africa
Millers	357	6	3	360	332	28	
Katies	153	5	2	156	156	0	
Crossroads	177	13	0	190	182	8	
Autograph	122	16	0	138	134	4	
City Chic	76	12	0	88	75	12	1
La Senza	1	-	1	0	0	0	
	886	52	6	932	879	52	1
Rivers		159	0	159	159	0	
Total	886	211	6	1091	1038	52	1

Store and Other Capex

Half Year Ended 31 December 2013

	New stores H1FY14	Refurbs H1FY14	Total H1FY14
Millers	6	2	8
Katies	5	0	5
Crossroads	13	1	14
Autograph	16	0	16
City Chic	12	2	14
Total	52	5	57

	H1FY14 $'000	H1FY13 $'000
New stores	10,324	1,887
Refurbishments	974	195
Head office capex	66	1,743
IT capex	926	856
Other capex(1)	844	1,497
Proceeds from sale(2)	(1,091)	(1,547)
Total net capex	12,043	4,631

(1) Other capex inlcudes motor vehicles of $0.5m and OH&S spend of $0.2m (H1FY13 $0.8m E-Commerce pick and pack facility)
(2) Proceeds from sale of office building

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