SPECIALTYFASHION | GROUP

ASX Announcement/Media Release

14th August 2015

Specialty Fashion Group Full Year Update

Specialty Fashion Group Limited (ASX: SFH – “The Group”) provides an update for the year ended 30 June 2015, together with a discussion of its business.

FY15 Results Update

Revenue for the full year ended 30 June 2015 was $791.5 million, 15.5% higher than the prior year. Comparable Sales Growth (CSG) for the business excluding Rivers was 5.3% higher than the prior year.

Revenue for the six month period to 30 June 2015 was $378.5 million, 4.9% higher than revenue from the Group for the second half of the prior year. CSG excluding Rivers for the second half of the year was 4.8% higher than the second half of the prior year.

At this time, and subject to full year audited results to be released on 25 August 2015, the Group expects Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) for FY2015 to be within the range of $20 million to $21 million, which includes a loss of $21.6 million attributable to Rivers. The Group had not previously provided EBITDA guidance for the 2015 financial year. Gross margin of 58.6% for the year was negatively impacted by aggressive discounting by Rivers to clear high levels of inventory. The Group’s costs of doing business as a percentage of sales for the year decreased to 56.7%, 120 basis points lower than the previous year.

Financial results contained in this update in relation to the year ended 30 June 2015 are preliminary in nature, subject to finalisation within the Company as well as audit by the Company’s external auditors. Further details will be available with the full year results which are scheduled to be released on 25 August 2015.

Solid Balance Sheet

The Group is in a solid financial position, with net debt of $27.8 million at 30 June 2015. The Group has met its banking covenants and has available undrawn debt facilities of $39.5 million at year end.

The Group’s capital expenditure for the year was $16.3 million. The capital expenditure includes $2.0 million invested in IT systems, mostly to support the Group’s digital strategy, and $14.3 million in relation to new stores and refurbishments.

Gary Perlstein, Specialty Fashion Group’s CEO, said: *“The overall performance of the Group (excluding Rivers) has been strong, with the Group delivering positive CSG underpinned by our Mother’s Day sales performance during the second half of the year. It is also pleasing to see that this stable of brands has delivered its third consecutive six-monthly period of positive CSG.*

The Group continues to deliver on its strategic objectives, in particular: the turnaround of Millers; our cautious international expansion; supply chain transformation; and a significant uplift in digital/online retail sales.

A key focus has been the turnaround of Rivers and we have made considerable progress integrating Rivers into the wider Group, fully leveraging the Group's existing supply chain infrastructure to drive down costs.

Notable achievements during the year related to the turnaround of Rivers included:

- *Established a stable and competent management team to execute our turnaround strategy.*
- *We have all but cleared the excessive levels of inventory inherited at acquisition, albeit through aggressive discounting and promotions that impacted short term margins.*
- *We have experienced positive customer response to the relaunch of our new ranges, across all categories. Focused digital marketing and engagement drove considerable uplift in online sales and generated a strong trend of repeat purchases by loyal rewards customers.*

We are beginning to see encouraging improvements in Rivers and believe that the worst is now behind us. However, we acknowledge that there is still much work to be done to return the brand back to profitability. We remain confident that Rivers will become profitable in FY2017, and will make a meaningful contribution to the Group's profitability in future years alongside our other brands."

Continued Business Improvement

The Group continues to deliver business improvements as part of its long-term strategy to be an omni-channel retailer that competes on brand and customer engagement, rather than price discounting.

Omni-channel Operations

The Group's total physical store portfolio comprised 1,086 stores at 30 June 2015, following the opening of 29 new stores and closure of 38 stores during the year (net decrease of 9 stores).

The Group adopted a measured approach in its pursuit of new store opportunities in markets beyond Australia, with 7 new City Chic stores opened in the USA during the year. The brand also has 2 stores in South Africa.

The Group's digital sales grew to $51.2 million for the year, representing 6.5% of total revenue, an increase of 64.0% or $20.0 million on the previous year.

Mr Perlstein stated: *"Our customers are enjoying their online shopping experiences, and there is significant potential for 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 growing across all demographics. The successful roll-out of the "click & collect" initiative throughout all Australian stores during the year resulted in online sales growth – a trend expected to continue into FY2016.*

Supply Chain Transformation

Transformation of the Group's supply chain to a design and direct sourcing model continues to drive cost savings. As flagged in the FY2014 results, aggressive discounting was undertaken during FY2015 by Rivers to clear high levels of inventory, which had a negative impact on short term margins in that brand.

Nevertheless, ongoing supply chain transformation initiatives have assisted in protecting margins against the strengthening of the US dollar. The Group was fully hedged during FY2015.

During the year, the Group commenced the implementation of its replenishment inventory model, with a view to ensuring optimum levels of correctly sized core product lines are delivered and replenished to stores quickly. This has had a positive impact on sales and a noticeable reduction in merchandise stock outs and contributed to lower markdowns.

Leverage Customer Relationship Management (CRM) Capabilities

Investment in a dedicated in-house customer insights team and CRM platform has driven positive customer engagement outcomes during the year. Email campaign responses are well above industry standards, due to the adoption of sophisticated customer segmentation strategies. We continued to grow the database with focused in-store activities aimed at signing up new customers, whom we can engage and communicate directly with through email.

Email-valid customer members grew to 4.4 million during the year and the total membership database now exceeds 8.6 million members. A focus for FY2016 will be to expand Rivers' membership database, in order to further leverage the Group's CRM capabilities and redirect marketing spend to digital strategies.

Three Pillar Growth Strategy

Specialty Fashion Group has a three pillar strategy for growth, through:

1) Rejuvenation of existing brands across the Group;
2) Transformation of Rivers to its former glory; and
3) Measured expansion into new markets beyond Australia for City Chic.

1. Millers Brand Rejuvenation

Millers continues to be the Group's largest and most mature brand, and has performed strongly under its leadership team, which has been tasked to upgrade every facet of the brand's operations. The brand delivered positive CSG and higher margins throughout the year, supported by a strong trading performance during the Mothers' Day period.

New in-store and online branding efforts and initiatives have been favourably received by the Millers customer, which has contributed towards the success of the brand's rejuvenation. During the year 12 existing sites were rebranded into the new Millers design concept.

Growth is expected to continue in FY2016, supported by further roll out of the new Millers store design concept, the opening of new stores and increased online sales. This will be underpinned by the brand's value proposition for quality and product differentiation.

2. Rivers' Brand Transformation

Considerable progress has been made to transition and integrate Rivers into the wider Group during the year.

When acquired, Rivers was a business that had been adversely affected by aggressive discounting, excessive marketing expenditure and significant levels of inventory accumulation. The Group was aware of these issues and the challenges they presented, and throughout FY2015 we have implemented strategies to address these issues and turn the Rivers business around. However, when compared to our expectations at acquisition, some of these strategies have taken longer than initially anticipated to have a positive impact on Rivers' profitability. The investment thesis however remains. Rivers was a proud and profitable household brand that lost its way, and the Group will return this iconic brand to its former profitability and popularity.

By successfully liquidating inventory inherited on acquisition in half the expected time frame, the business has ensured Rivers' long term brand equity is maximised, although this did have a negative impact on the Group's margins during the year.

Management remains confident that the worst is now behind the brand, and with the continued successful execution of focused strategies and initiatives, Rivers is anticipated to become profitable in FY2017 and deliver a meaningful contribution to the Group's profitability.

3. City Chic's Expansion into the USA and South Africa

City Chic's USA wholesale business currently sells into 60 Nordstrom stores across the USA. The brand has also commenced a trial of a small range of product into Macy's. The initial response from Macy's and its customers has been positive. We will continue to assess further site opportunities to augment our current 7 stores in the United States and 2 stores in South Africa.

City Chic has experienced significant growth in online sales in Australia and the USA. The continued growth of international online sales will remain a key focus for the brand during FY16.

Outlook

It has been pleasing to see that the Group, excluding Rivers, has delivered its third consecutive six-monthly period of positive CSG. The Group has performed to expectations since the start of FY2016, notwithstanding the difficult trading conditions currently being experienced by the retail fashion sector.

Returning Rivers to profitability is a priority, and we are confident that we have strategies in place to do this successfully.

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 continue to compete for increased sales and improved margins through product differentiation and customer engagement of our brands rather than discounting prices.

The Group will also continue to focus on potential growth opportunities through new stores and measured entry into certain retail markets beyond Australia.

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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 Group operates 1,086 stores in Australia, New Zealand, USA 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 as well as selected national department stores.