SPECIALTYFASHION | GROUP

2017 Annual General Meeting

21 November 2017

Chairman's Address

Good morning and thank you for your attendance today.

CEO Succession

I'd like to begin by acknowledging our CEO, Gary Perlstein.

Last week, we announced that Gary Perlstein will retire as CEO of the company following an appropriate process to identify and appoint a successor. After 14 years as CEO, Gary considers the time right for him to make way for new leadership and fresh perspectives for SFG.

Following the appointment of a new CEO, Gary will retire from both his executive and Board responsibilities. However, he will remain available to support SFG with a smooth transition to the new leadership.

As part of the Board's succession planning processes, we have commenced a formal search to identify and appoint a new CEO.

Gary has been a dedicated and intensely passionate CEO of the business, and we are grateful to him for the significant contribution he has made to the Group for nearly 25 years. Gary has always put the interests of the Group first.

Gary is at his core an entrepreneur. It was this entrepreneurial spirit that saw him co-found the business with Ian Miller 24 years ago. He has served as CEO for the last 14 years, including during the most tumultuous period in Australian retailing history. He has led the Group's expansion and response to the changes facing Australian retailers, and has been instrumental in building our market leading online sales channels as part of the Group's move to an omni-channel retailer.

Gary- you have made a significant contribution to the Group for more than two decades. Thank you.

We look forward to your CEO Report in a few moments.

Market Conditions

The financial year to 30 June 2017 was a challenging year for Specialty Fashion Group and, indeed, many Australian retailers with a significant bricks and mortar store presence.

This is coming from two principal sources – subdued consumer confidence impacting discretionary expenditure and increasing competition, both from international and online retailers.

Trading conditions have continued to be challenging in the first quarter of FY18. We are accelerating our actions to address these conditions and strengthen our position – and I will talk about these shortly.

We acknowledge shareholder frustration. It is our job to strengthen SFG's performance, its business and its market position in the face of the market challenges.

Your Board, not just management, take responsibility for our performance and we are resolutely focused on actions to improve shareholder value.

Performance

Whilst SFG delivered an improvement in underlying EBITDA for FY17, we incurred a number of one off costs in our results. This resulted in SFG reporting an after-tax loss of $8.4 million, after accounting for one off costs of $8.8 million.

Gary will talk more about our financial performance in his address.

As a consequence of continued challenging trading conditions in the first quarter of the new financial year, the Company advised the market in mid-October that our expectations for underlying EBITDA in FY18 would be lower than FY17 and in the range of $14.0 to $20.0 million.

Accelerating Change

The Company has a wide-ranging business improvement program underway, focused on making us more efficient and resilient to the structural changes occurring in the retail sector - optimising the store portfolio, accelerated closure of loss making stores, accelerating our e commerce strategy and continuation of our business efficiency program..

Whilst SFG has made strong progress on a number of operational issues, including completion of the successful implementation of a new ecommerce platform to maximise multi-channel migration, we are accelerating our speed in implementing the business improvement program in the face of continued market challenges.

Let me now speak in more detail about our priorities and actions.

Store rationalisation is a key and immediate focus. We have a large store portfolio comprising 1,019 stores as at the end of September 2017.

Whilst we have made some progress in optimising the store portfolio, we are taking actions to more quickly reduce our store footprint, with an immediate focus on loss making stores on 'hold over' leases. We are targeting an optimised store network of around 700 stores in 2020 compared to the current 1,000 plus stores.

Importantly, this program is being front–ended with a significant reduction being completed during 2018.

We continue to pursue cost management initiatives and business simplification by integrating shared service functions into the brands. In the first quarter of FY18, we have reduced costs by around $3.6 million through a leaner support office.

Concurrently with the acceleration of the Company's business improvement initiatives, your Board is undertaking a comprehensive structural review and assessment of all options and opportunities to improve shareholder value.

Our growth strategy will remain focussed on ecommerce, and the international expansion of City Chic's wholesale business.

Capital management will continue to be a strong focus of the Board and management principally in the following areas:

- Consolidating our store portfolio to maximise earnings and ensure the best utilisation of funds across the business;
- Improving working capital;
- Reducing costs of doing business; and
- Reducing debt.

In June 2017 SFG renewed its external financing facilities .and extended the maturity to 28 February 2019. The facilities are subject to a continuing amortisation program, with total available facilities reducing from $54.5 million at 30 June 2017 to $35.0 million by 30 June 2018.

We finished FY17 with a net debt position of $8.3 million (representing bank debt of $25.7 million and cash and equivalents of $17.4 million). This was improvement in net debt of $5.0 million on the prior year and an overall improvement of $19.5 million since FY2015.

Al Alfia Proposal

During the year your Board and leadership team responded to a non-binding change of control proposal which we received from Al Alfia Holdings. While it required considerable time and focus on our side, that proposal did not result in an offer capable of being put to shareholders due to unexpected issues on Al Alfia's side.

Governance & Board Renewal

Board renewal and the addition of new non-executive Directors to the Board is an important part of promoting strong governance of SFG. We had begun this process during the year, but the unexpected change of control proposal, resulted in needing to put our Board renewal activities on hold during the proposal discussions which lasted several months.

We have re-engaged our search for additional non-executive Directors and during the next 12 months we aim to complete this stage of Board renewal.

As part of Board renewal, Ashley Hardwick has advised he will not stand for re-election as a Director of SFG at the next AGM. This is to align the NAAH group's Board representation more closely to that of its shareholding.

Before handing over to Gary for his address to shareholders, on behalf of the Board, we extend our appreciation to all our shareholders for their on-going support, and thank our management team and the more than 5,000 team members, for their continuing commitment and contribution.

Thank you.

CEO'S ADDRESS

Thank you Anne. Good morning ladies and gentlemen.

As the Chair has said, trading conditions in the retail industry have been very challenging for the past 12 months, and continue to remain so into the new financial year. Within this context, the Group showed resilience in the 2017 financial year to deliver an improvement in underlying EBITDA earnings.

Positive achievements in FY17 included:

- the turnaround of the Rivers business to profitability;
- City Chic's growth both domestically and abroad; and
- consistent improvement in our online performance.

While our mature brands (which are Millers, Crossroads, Autograph and Katies) enjoyed growth in online sales, trade was generally challenging. We continue to focus on improving performance of these brands to realise their full potential. Our goal remains to continue to provide great value to our customers, whilst maintaining strong cost discipline and margins.

In terms of financial performance, the Group delivered an underlying EBITDA of $26.7 million, up 6.6% on the previous year on reduced revenues of $809 million. Revenues were 2.1% lower than FY16.

EBITDA growth was driven by:

- sales growth in Rivers and City Chic;
- increased online sales (which now represent 10.4% of total revenues, and are up 15% on FY16);
- cost management discipline; and
- improvements in working capital management.

Our reported result was impacted by one-off costs of $1.4 million relating to evaluating the Al Alfia change of control proposal and costs of $7.4 million associated with the closure of City Chic USA stores.

The successful establishment of City Chic's profitable online and wholesale channels in the USA has meant our USA standalone stores were no longer needed to grow this brand in that market. The closure of these stores was completed in September 2017 and will enable City Chic to focus on its international wholesale growth channels. The brand has consolidated a leadership position in the Australian market, and is making its mark on an international scale in the USA, the UK and now in Germany.

After the one-off costs incurred, we reported an after-tax loss of $8.4 million. While one-off restructuring and other costs impacted the result, it's important to note that many key operating performance indicators we measure success by showed positive improvement.

In a tough retail environment, we are transforming the business for the long term, concurrently with a focus to deliver the right shorter term operating performance.

Product selection, quality and the shopping experience (whether the physical store or online store) are crucial to what our customer wants, and for our brands to succeed in an evolving retail environment. Some brands have performed well this year. Others are working relentlessly to further transform their offers to deliver to the expectations of the modern customer.

In this environment, a disciplined approach to controlling costs and allocating capital to our most profit generating brands is imperative.

Optimising our physical store portfolio was a key focus during the year, and remains so into FY2018 as we review the return on investment of our stores, quickly minimising the impact of any under-performing stores. The Chair has outlined our plans in this regard.

Online sales now account for 10.4% of total revenues, and continue to grow at impressive rates across all brands, supported by newly launched e-commerce platforms. We have also launched Afterpay on our online platform, further building momentum in this vital channel.

Our online growth reinforces our view that a critical pillar to the success of online sales is an integrated physical store and online experience and presence.

Our CRM platform has in excess of 9 million members, which includes an email base of more than 5.5 million customers who we regularly communicate with. Connection with customers is core to our success, and we continue to work hard every day to improve and strengthen this. Enhancing customer engagement to deliver the ultimate customer experience is our primary goal. This means offering the right product in whatever form our customer wants to shop.

While we have made strong progress on many operational issues, there is no escaping the fact that trading conditions have been challenging, and continue to be so into the new financial year. The Group is striving to be agile in navigating these conditions and is accelerating our change program.

I would like to thank our customers for being part of our journey in FY2017 and allowing us to be a part of theirs.

Finally, I would like to thank the Chair for her kind words.

SFG has been a significant part of my life for the past 24 years. However, it is healthy and timely after 14 years as CEO for the Group to have new leadership and fresh perspectives, and also for me to explore other entrepreneurial opportunities.

As a significant investor in SFG, I am a believer in the long-term opportunities for the business and I look forward to working with the Board and the management team to ensure a seamless handover.

It has been a privilege to work with such a talented and passionate group of people, and I am deeply grateful for all the support I have received over my time as CEO. The business is in good hands.

I particularly want to acknowledge the support I have received from our current Chair and Board. Thank you, and also previous Board members, notably former Chairman Geoff Levy and Ian Miller. Thank you to you all.

I am very proud to have led the company during a period of expansion and change, and to have helped shape SFG’s evolution to an omni-channel retailer.

My focus remains to lead this business with full commitment ahead of the new CEO starting.

Thank you.