city chic collective

27 August 2019

City Chic Collective Limited FY19 Full Year Results

Results Highlights

- **Sales Revenue of $148.4m[1] (up 12.6%) with comparable sales growth of 12.2%[2]**
- **Online penetration at 44% of total sales (FY18: 36%, 1H FY19: 40%)**
- **Northern hemisphere now 20% of global sales (FY18: 16%)**
- **Reported PBT from Continuing Operations[3] of $19.2m (FY18: $11.5m)**
- **Underlying EBITDA[4] of $24.9m (up 25%) with Underlying EBITDA margin of 16.8% (FY18: 15.1%)**
- **Normalised operating cash flow of $21.5m[5]**
- **Strong balance sheet with net cash of $23.2m (1 July 2018: $16.1m)**
- **Fully franked final ordinary dividend of 1.5 cents per share (cps); fully franked interim ordinary dividend of 2.5cps and special dividend of 2.5cps paid in March 2019**

City Chic Collective Limited ("City Chic") today released its FY19 full year financial results for the 52 weeks to 30 June 2019. City Chic's Reported Net Profit After Tax (NPAT) for the Group[6] was $16.0m (FY18: $9.3m loss) and Underlying Earnings Before Interest, Taxation and Amortisation (EBITDA) was $24.9m[4] (FY18: $19.9m).

Phil Ryan, Chief Executive Officer and Managing Director of City Chic said:

"FY19 was an important year for City Chic, our first as a standalone business. I am pleased to report 25% growth in Underlying EBITDA for the year as strong trade continued into the second half delivering top line and comparable sales growth. Our EBITDA margin increased as our business continues to shift towards online, our most profitable channel, which is now 44% of global sales.

The growth in our online business is encouraging as we gained a greater share of wallet and expanded our offering, which is now three times our in-store range. FY19 was a strong year for our northern hemisphere business, which contributed 20% of global sales.

Our stores remain the largest touchpoint with our customers. The store rollout in Australia and New Zealand is tracking to plan with the opening of nine new stores in the year. In July and August we opened a further two new stores and have a good pipeline for the rest of the half.

In the year we also converted three stores to larger format, giving us four in total. The larger format stores, which have a wider range, have been well received by our customers and are trading ahead of expectations.

From a capital management perspective, FY19 was significant because it marked the recommencement of dividends. Our strong balance sheet and cashflow conversion from operations supports the payment of a fully franked final

[1] Excludes Interest and Other Revenue.
[2] As announced in 1H FY19 results Investor Presentation, CSG is now calculated excluding marketplace partners. Using the previous methodology which included marketplace partners, the CSG for FY19 was 10.0%. The previously reported CSG for FY18 was 12.9%; under the new methodology CSG for FY18 was 15.0%.
[3] Profit Before Tax for Continuing Operations exclude brands divested to Noni B on 2 July 2018. No underlying adjustments.
[4] The underlying adjustments include primarily transition costs incurred to implement the separation of the divested brands and the organisational transformation. A reconciliation of the $2.1m of underlying adjustments made to calculate Underlying EBITDA has been provided in the Investor Presentation lodged today together with this announcement.
[5] Normalised for impact of earlier settlement for select suppliers on more favourable pricing terms and outflows associated with the divestment
[6] NPAT for Group includes NPAT from Continuing Operations and NPAT from Discontinued Operations. No underlying adjustments.

ordinary dividend of 1.5 cents, taking the full year ordinary dividend to 4 cents. We have also returned cash from divestment proceeds through a fully franked special dividend of 2.5 cents earlier in the year.

It has been a transformative year for City Chic and I would like to thank our team for their hard work and commitment in successfully executing the transition to a standalone business. The business is now well positioned to pursue our growth agenda and has the capital necessary to execute our strategic priorities."

FY19 Results Review

Highlights of the audited FY19 results include:

- Sales Revenue up 12.6% vs. prior corresponding period (PCP) to $148.4m
    - Comparable Sales Growth (CSG) of 12.2% (FY18: 15.0%)[7];
    - Strong growth for both Australasian and US website;
    - Opened 9 new standalone stores in Australia and converted 3 stores to larger format; the 13 remaining Myer concessions have been closed, as well as 1 standalone NZ store.
- Underlying EBITDA margin improvement from 15.1% in FY18 to 16.8% in FY19, driven primarily by tight cost controls and the ongoing shift to the higher profit margin online channel
- Gross Profit margin of 57.8% (FY18: 59.0%) was impacted by the shift in channel mix to online and growth in wholesale. Despite being the most profitable channel at the earnings line, online has a lower Gross Profit margin due to higher fulfilment costs, while wholesale is a lower Gross Profit margin model. Notwithstanding the impact of the shift in channel mix, the Gross Profit margin for stores and the websites benefited from reduced discounting and higher sell prices due to:
    - Improved buying discipline and category mix;
    - Improved allocation of stock to the appropriate channel.
- Underlying Cost of Doing Business (CODB) reduced to 41.3% of sales from 44.1% PCP, driven by:
    - Greater contribution from the lower CODB online channel;
    - Careful management of head office and store costs[8], with ongoing investment to support growth;
    - Reduced contribution from less profitable concessions which were closed throughout FY19.
- Operating cash flow of $21.5m normalised for outflows associated with the divested brands, the transaction and the transition, as well as the impact of earlier settlement for select suppliers on more favourable pricing terms. Divestment related outflows include settlement of select retained supplier and employee liabilities, GST related balances, advisor fees and redundancies, which were provided for at 1 July 2018 or underlying adjustments in FY19.

FY19 Operational Review

FY19 has been a transformative year for City Chic with a number of achievements that have delivered a strong result and laid the foundation for ongoing growth:

- Roll-out of 9 new stores and 3 larger format conversions;
- Expansion of product offering with additional categories online and in larger format stores;
- Enhancements to customer experience including the launch of 24-hour live chat, improved packaging and fulfilment capabilities;
- Acquisition of Hips & Curves in the USA;
- Established relationships with new partners in the USA including Co-edition and Belk;
- Organisational transformation following the divestment of 5 brands at beginning of the financial year to create the standalone business;
- Migration to independent IT infrastructure ahead of schedule and within budget.

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[7] As announced in 1H FY19 results Investor Presentation, CSG is now calculated excluding marketplace partners. Using the previous methodology which included marketplace partners, the CSG for FY19 was 10.0%. The previously reported CSG for FY18 was 12.9%; under the new methodology CSG for FY18 was 15.0%.

[8] CODB includes $1.1m of share-based payments expense in FY19 (FY18: nil). Excluding these, CODB as percentage of sales for FY19 was 40.9%.

Financial Position and Dividend

City Chic's net cash position at 30 June 2019 was $23.2m[9]. This compares to a net cash position of $16.1m at 1 July 2018. The $15m bank facility was undrawn throughout the year and at 30 June 2019. Having consideration of the current capital position and ongoing funding requirements, as well as the now completed post-divestment business transformation, City Chic has reassessed its debt funding requirements. Subsequent to the year end, the bank facility was reduced to $5m and the term extended to August 2022.

City Chic's net cash position, earnings momentum and solid cash flow generation supports the payment of a final dividend for FY19. The Board has declared a fully franked final ordinary dividend of 1.5 cents per share. The record date for the dividend is 16 September 2019, with payment on 30 September 2019.

City Chic is well capitalised to pursue its growth plans and continues to carefully consider capital allocation and the capital requirements of the business.

Divestment Update

On 2 July 2018, City Chic divested 5 brands (Millers, Katies, Crossroads, Autograph and Rivers) to Noni B Limited ("Noni B"). The business sale agreement included a post completion adjustment mechanism for cash and certain limited working capital items. Independent experts were engaged to determine the quantum of the adjustment and other aspects of the business sale agreement.

On 24 June 2019, City Chic announced that it had received a favourable determination from the independent experts. On 31 July 2019, Noni B filed proceedings in the Supreme Court of New South Wales seeking orders setting aside the independent experts' determination. Notwithstanding that City Chic received a favourable expert determination, given the subsequent proceedings filed by Noni B, City Chic has been prudent and provisioned accordingly.

Hips & Curves

As part of City Chic's ongoing strategy to grow its customer base in the USA market and international presence, the company acquired the assets of the Hips & Curves business on 29 April 2019 for US$2m. The transaction is expected to be earnings accretive. Hips & Curves is an online plus-size intimates retailer with a large customer following in the USA. The Hips & Curves website operates separately from the City Chic website in the USA and in addition to growing the customer base in the northern hemisphere, there are opportunities for cross-selling and supply chain efficiencies.

Outlook

City Chic has delivered positive comparable sales growth in FY20 to date which is expected to continue for the full year. During FY20, City Chic's focus will be on the execution of various initiatives to drive growth including:

- Ongoing store roll-out across Australia and New Zealand (further 20 stores over approximately 2 years);
- Conversion of existing high performing stores to larger format (further 15 conversions over 2-3 years);
- Continuing expansion of lifestyles and categories;
- Expansion into new segments within plus-size;
- Growing the customer base in the USA;
- Adding new partners in the northern hemisphere;
- Ongoing investment to enhance customer touchpoints.

[9] Income tax payable of $5.5m relating to FY19 will be paid in FY20. Includes tax related to revenue generating assets sold as part of the divestment on 2 July 2018.

Additional Information

An Investor Presentation has been lodged with the ASX today together this with announcement.

About City Chic Collective

City Chic Collective is a leading multichannel retailer specialising in the plus-size (size 14+) women's apparel, accessories and footwear market. Its customer-led offer appeals to fashion-forward women. Lifestyle driven and accessible, the City Chic brand has a strong following in Australia and New Zealand, with a fast-growing presence in North America and Europe.

City Chic's multichannel model comprises: a network of 104 standalone stores across Australia/New Zealand; websites operating in Australasia and USA; marketplace and wholesale partnerships with major USA retailers such as Macys and Nordstrom; and a wholesale business with European partners such as ASOS and Zalando.

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