

ASX Announcement

26 August 2014

Specialty Fashion Group Announces Full Year Results

Specialty Fashion Group Limited (ASX: SFH) (the Group) revenue for the full year ended 30 June 2014 was \$685.0 million, 20.3 per cent higher than the prior year. Positive comparable store sales growth of 5 per cent in the second half of the year was especially pleasing, given the 4.9 per cent decrease in the first half (overall, comparable store sales growth for the year decreased slightly by 0.7 per cent). Sales growth continued to be achieved from new stores in Australia (including Rivers' stores) and abroad. The trend of positive comparative sales growth has continued in the new financial year.

The Group delivered Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) of \$39.2 million, which included a record gross margin of 63.1 per cent, 124 basis points higher than the prior year.

Net profit for the year was \$12.5 million, compared with \$13.0 million for the prior year, and the Group concluded the year with \$12.0 million net debt. The company has again declared a final dividend of 2 cents per share, fully franked.

Gary Perlstein, Specialty Fashion Group's CEO, said: *"After a disappointing first half a much stronger trading performance has been achieved in the second half of the year, with a record Mothers' Day period. Investments made in our brands, in particular Millers, and our ongoing improvements in supply chain have meant we have managed to continue to increase gross margins despite an adverse exchange rate.*

"A key focus in the second half has been the integration of Rivers and whilst we continue to make considerable progress, there is still significant work to be done as we rebuild the buying, planning and marketing teams, and business processes. We only expect an improvement in Rivers' performance in the second half of FY15.

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 pursuing measured entry into certain retail markets beyond Australia that should provide growth opportunities for our brands."

Note: A reconciliation of EBITDA to profit before tax is provided in the appendices of the investor presentation, also announced 26 August 2014.

Ongoing Financial Strength

Specialty Fashion Group ended the year in a solid financial position, with net debt of \$12.0 million at 30 June 2014. The Group now has higher working capital funding requirements, due to the higher mix of direct suppliers (refer below), and the addition of Rivers to the Group.

The Group's capital expenditure was \$6.4 million in the second half (\$19.5 million for FY14), with the opening of 18 new stores (70 in total for the year). Continued brand development, most notably the Millers brand rejuvenation strategy (refer section below), required an investment of \$8.5 million, which was mainly driven by an increase in headcount as the Group builds highly experienced teams to support these key growth initiatives. Incremental costs associated with omni-channel growth, both stores and online, were \$15.4 million.

The Group's costs of doing business for the year were \$85.8 million higher than the prior year, of which \$58.3 million can be attributed to Rivers. One-off costs incurred principally in relation to the integration of Rivers were \$1.8 million. Unavoidable inflation in rentals, wages and other expenses of \$9.8 million was offset to an extent by further savings achieved through rental renewals and exits of \$9.9 million.

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. The improvements in the past year included the following:

Omni-channel Operations

The Group's total physical store portfolio grew to 1095 stores at 30 June 2014, following the opening of 18 new stores and closure of 14 stores during the second half of the year. The Group's online sales grew to \$31.2 million for the year, or 4.6 per cent of total revenue – an increase of 42.5 per cent on the previous year. The introduction of "click & collect" and iPad rollouts to all stores during FY14 contributed to this growth, as well as the addition of Rivers' online store.

Supply Chain Transformation

Transformation of the Group's supply chain to a design and direct sourcing model continued to derive benefits, especially through achieving lower markdowns as well as better cost prices. There has been an ongoing shift to directly sourced product (84% at June 2014 compared with 64% at June 2013). Further benefits are expected as improvements are made in Rivers' supplier base. However, the average gross margin of the Group is expected to be negatively impacted in FY15 by the influence of Rivers' due to its level of markdowns in the first half of FY15 (refer section below).

Historically the Group has operated a "push to store" inventory distribution model. As the next stage in the transformation of the supply chain, a program commenced in April 2014 to implement a replenishment inventory model across the Group, with the rollout expected to be completed June 2015. Cost benefits are expected through consolidation of the warehousing, and improvements in sales and margin are expected from reductions in stock outs and markdowns, the full effect of which we anticipate will only be realised in FY16.

Leverage Customer Relationship Management (CRM) Capabilities

The investments made in a dedicated in-house customer insights team and CRM platform continued to drive positive results in customer engagement. Email-valid customer members grew to 3.4 million during the year and the total customer membership database comprises more than 7 million members. The focus for FY15 is to expand Rivers' customer membership database in order to leverage the Group's existing CRM capabilities.

Three Pillar Growth Strategy

Specialty Fashion Group has a three pillar strategy to grow the business through: rejuvenation of existing brands across the Group; transformation of Rivers; and measured expansion into new markets beyond Australia for City Chic.

Millers Brand Rejuvenation

A significant investment program to rejuvenate the Millers brand has now been underway for 15 months and is delivering benefits, with the brand achieving positive comparable store sales growth and higher margins throughout the second half of FY14, with a particular highlight being record trading results during the Mothers' Day period.

Growth is expected to continue in FY15, supported by the launch of new Millers in-store and online branding. A new store design is being trialled in a small number of stores, with promising initial results.

Rivers' Brand Transformation

The integration of Rivers into the Group has been progressing, with the closure of the Melbourne office in May. However, we needed to rebuild the brand team in Sydney and it has taken time to fill critical senior roles. There are still some positions which need to be filled, and we expect the team to be complete by the end of the first half of FY15.

Aggressive promotional tactics were employed in the second half of the year to clear the warehouses of acquired product to make way for new summer season inventory. The value of the acquired inventory was low, thus the gross margin achieved was consistent with historic levels for the brand. The brand will continue to have comparatively high levels of markdowns in the first half of FY15 as product that was selected prior to the acquisition of the brand is the majority of the product mix in the first quarter of FY15. Whilst this means we have not yet reached the point we need to, improvement is expected during the second half of FY15 when stores become fully stocked with product selected by the new buying team.

A discount on acquisition of \$4.8 million and costs in relation to the acquisition of \$1.4 million are reflected in the EBITDA result for the year.

City Chic's Expansion into South Africa and USA

During the second half of FY14, a second City Chic store was opened in South Africa, and performance is being assessed whilst exploring further site opportunities.

The Group has been pursuing further expansion of the City Chic brand into the US market, having operated a US dedicated City Chic online store for the past four years. In July 2013 the brand started a successful wholesale business initially selling through Nordstrom's online store. Due to the success in Nordstrom's online store, distribution expanded in March 2014 to include 10 Nordstrom's department stores and is now being expanded further to 50 Nordstrom's stores across the US in October 2014.

Since July 2014, City Chic has also opened three stores in California, and a further three new store openings are planned over coming months. The performance of these stores will be assessed for a year before further investment in new stores in the US is made.

This has been a year of investing in our international capabilities and we hope to see profitable growth come from these investments in the coming years.

Outlook

The Group has achieved positive comparative sales growth so far in the new financial year.

The key focus areas for FY15 are:

- Complete the integration of Rivers, and pursue improved brand performance in the second half of FY15;
- Continue the Millers brand and product rejuvenation program; and
- Measured investment and expansion of the City Chic brand in the USA and South Africa.

ENDS

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About Specialty Fashion Group

Specialty Fashion Group is a leading omni-channel retailer that competes on brand and customer engagement, rather than price discounting, to drive profitability. The Group is the largest specialty retailer of women's fashion in Australasia, through Millers, Katies, Crossroads, Autograph, City Chic and Rivers. The company operates 1095 stores in Australia, New Zealand, the 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.