28 August 2018

Specialty Fashion Group Limited FY18 Results

- **City Chic delivers strong result**
  - Underlying EBITDA[1] of $19.9m (FY17: $11.1m), at the upper end of guidance
  - Sales revenue up to $131.9m[2] (12.9% comparable store sales growth[3])
  - Online sales increased to 36% of total sales (FY17: 29%)
  - Significant increase in international profitability
  - Gross margin improved to 59.0% (FY17: 57.6%) and Gross Profit up to $77.8m (FY17: $72.0m)
  - Underlying Cost of Doing Business (CODB) as % of sales down to 44.1% (FY17: 48.9%)
  - Underlying EBITDA[1] and EBIT[1] margins of 15.1% (FY17: 8.9%) and 12.1% (FY17: 5.4%) respectively
- **Strong balance sheet with dividends expected to recommence in FY19**
  - Net cash pre-transaction completion of $16.1m (FY17: $8.3m net debt) reflecting strong City Chic performance and disciplined working capital management
  - Pro-forma net cash position of approximately $25m, including cash proceeds from sale of divested brands and after allowing for expected transaction and separation related costs
  - The Board has determined its dividend policy will have a minimum payout ratio of 50% of NPAT

As previously announced, Specialty Fashion Group (SFH) has successfully divested its Millers, Crossroads, Katies, Autograph and Rivers businesses to Noni B Ltd for $31m cash, effective 2 July 2018 (the Transaction). Notwithstanding an improvement in the second half of FY18, the performance of the divested brands continued to be challenging.

SFH's NPAT Loss of $9.3m reflects fair value and transaction related adjustments associated with the divestment. A summary of results for continuing operations (City Chic), discontinued operations (divested brands) and the Group are set out below:

	FY17			FY18		
Income Statement ($m)	Continuing[5]	Discontinued	Total	Continuing[5]	Discontinued	Total
Sales Revenue[2]	125.1	678.9	804.0	131.9	619.3	751.1
Comparable Sales Growth[3]	*6.7%*	*(4.2%)*	*(2.0%)*	*12.9%*	*(3.7%)*	*(1.3%)*
Underlying EBITDA[1]	11.1	15.6	26.7	19.9	4.1	24.0
Underlying EBITDA Margin	*8.9%*	*2.3%*	*3.3%*	*15.1%*	*0.7%*	*3.2%*
Reported EBITDA	5.9	14.4	20.4	16.9	(6.2)	10.7
Underlying EBIT[1]	6.7	(2.2)	4.5	16.0	(12.1)	3.9
Underlying EBIT Margin	*5.4%*	*(0.3%)*	*0.6%*	*12.1%*	*(2.0%)*	*0.5%*
Reported NPAT[4]			(8.4)	15.0	(24.3)	(9.3)

[1] A reconciliation of all adjustments made to determine Underlying and Reported EBITDA and EBIT has been provided on Page 26 of the Investor Presentation lodged today together with this announcement.

[2] As a standalone business and in accordance with AASB 15, revenue relating to product sold to partners (wholesale and marketplace) is now presented net of vendor funded mark-downs (VFMD). City Chic sales revenue was previously presented gross of VFMD, as was the FY18 sales guidance of $138m-$140m, with a net nil impact on the gross profit. Excludes Other Revenue.

[3] Excludes Wholesale.

[4] Net interest expense is allocated to continuing operations.

[5] Continuing operations means City Chic, which now includes the allocation of shared service costs on the bases of a standalone business unit (with a corresponding reduction in allocated costs to the discontinued businesses).

Daniel Bracken, Chief Executive Officer of SFH said:

"FY18 was a transformative year for the company, with the agreement to divest five of our six brands. The transaction provides the best possible outcome for our shareholders, significantly strengthens the balance sheet, and provides the ability to focus on the growth and development of our City Chic brand."

Phil Ryan, General Manager of City Chic and incoming Chief Executive Officer of SFH said:

"The strong results achieved by City Chic across both store and online channels were very pleasing and demonstrate its significant momentum and potential as a standalone business. City Chic continues to deliver a truly cohesive omni-channel offer with online contributing 36% of sales and a consistently profitable and growing store portfolio.

"We have invested in City Chic's online platform and expanded our online exclusive range, with a focus on enhancing customer experience at every touch point. We also saw the benefits in both sales and margin from our investments in the business' logistics and supply chain capabilities.

"With our single focus on the City Chic customer, a strong balance sheet and a highly engaged and energised team, several of whom have been with the brand for over 10 years, I am confident we will continue to deliver strong results and growth."

City Chic FY2018 results review

Highlights of the audited FY18 City Chic results include:

- Sales Revenue up 5.5% vs. PCP to $131.9m
    - Comparable Sales Growth of 12.9% (10.3% 1H and 15.9% 2H)
    - Online sales now represent 36% of total sales revenue with strong growth achieved in both Australasian and USA markets
- Positive lift in Gross Profit margin at 59.0% (FY17: 57.6%) despite the shift in channel mix, driven primarily by strong inventory buying discipline and increase in full price sales
- Underlying CODB reduced significantly to 44.1% of sales from 48.9% in the prior year, reflecting tight cost discipline and greater contribution from the lower cost online channel
- City Chic's store network in Australia/New Zealand continues to trade strongly
    - A roll out plan for standalone City Chic stores is underway, with further reductions in concession stores planned
    - Stores in the USA and operations in South Africa were successfully exited. City Chic's focus in the USA is on the high growth online channel.

Balance sheet

SFH's net cash position was $16.1m at 1 July 2018 compared to $8.3m net debt the year prior, representing a positive cash swing of $24.4m. This was prior to receipt of cash proceeds from the Transaction and reflects the strong performance of City Chic and a strong and disciplined focus on working capital management across both City Chic and the discontinued businesses.

Cash proceeds of $31m from the sale of the discontinued businesses have further strengthened the balance sheet. SFH's pro-forma net cash at 1 July 2018 was approximately $25m, after allowing for expected transaction and separation costs and other retained liabilities post transaction.

In June 2018, SFH secured a new $15m, 3-year debt facility.

Recommencement of dividends

As previously foreshadowed, the company's strong cash position, earnings momentum and solid cash flow generation, is expected to enable the recommencement of dividend payments. The Board has determined that its dividend policy will have a minimum payout ratio of 50% of NPAT. The Board expects this policy to be effective from FY19. The Board is also considering capital allocation requirements and broader capital management options, and expects to provide further detail at the AGM in November 2018.

Outlook

Sales growth is anticipated in FY19 across all channels with the strongest growth expected to come from online. City Chic continues to show positive sales growth in the first 7 weeks of the current financial year.

City Chic expects to incur capital expenditure up to $7m in FY19 as it transitions off SFH legacy systems and implements its own standalone IT platform, as well as investing in the store portfolio and ecommerce platform. Thereafter annual capital expenditure is expected to reduce to within a range of $4-5m, which reflects the material contribution of the less capital intensive online channel.

Transaction update

On 2 July 2018, SFH received cash consideration of $31m for the sale of the divested brands. As part of the business sale agreement, Noni B Ltd (ASX: NBL) and SFH agreed a post completion adjustment mechanism for cash and certain limited working capital items which is yet to be finalised.

Adjustment to Share Capital under Section 258F of the Corporations Act

The Board has resolved to reduce the share capital of the company in accordance with section 258F of the Corporations Act 2001 (Cth) (Corporations Act).

The capital adjustment will have the effect of reducing the share capital account and eliminating prior year 'accumulated losses' in the parent entity of the company's financial statements, which removes any uncertainty about whether the company has the ability to frank future distributions. This is a technical adjustment which does not impact the net assets, financial results, cash flow or funding of the company.

Under section 258F(1) of the Corporations Act, a company may reduce its share capital by cancelling any paid up share capital that is not represented by available assets. The net assets were less than the share capital and the deficiency in net assets is permanent in nature and arose primarily as a result of prior years' losses as the company exited the Discount Variety Division in 2005. A reduction of $85.3m was allocated in full to the prior period accumulated losses account in the parent company.

The company makes the following disclosures to shareholders under ASX listing rule 7.20:

- The number of securities on issue will not be affected and no amount was previously or will be unpaid on any of its securities pursuant to the share capital reductions;
- There are no fractional entitlements arising from the share capital reduction;

- There are no convertible securities on issue and hence no impact.

Additional Information

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

About City Chic

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

City Chic's multichannel model comprises: a network of 107 stores across Australia/New Zealand; two websites operating in Australasia and USA; marketplace and wholesale partnerships with major US retailers such as Macys and Nordstrom; and a wholesale business with European partners such as ASOS, Evans and Zalando.

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