HALF YEAR RESULTS

FY17

SPECIALTY FASHION | GROUP

AUTOGRAPH city chic crossroads KATIES Millers rivers

For personal use only

For personal use only

IMPORTANT NOTICE & DISCLAIMER

This presentation has been prepared by Specialty Fashion Group Limited (the “Company”). It contains general background information about the Company’s activities current as at the date of the presentation. It is information given in summary form and does not purport to be complete. The distribution of this presentation in jurisdictions outside Australia may be restricted by law and you should observe any such restrictions.

The Company has prepared this presentation based on information available to it, including information derived from publicly available sources that have not been independently verified. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, correctness or reliability of the information, opinions and conclusions expressed.

Any statements or assumptions in this presentation as to future matters may prove to be incorrect and differences may be material. This presentation should not be relied upon as a recommendation or forecast by the Company. To the maximum extent permitted by law, none of the Company, its directors, employees or agents, nor any other person accepts any liability, including, without limitation, any liability arising from fault or negligence on the part of any of them or any other person, for any loss arising from the use of this presentation or its contents or otherwise arising in connection with it.

For personal use only

AGENDA

1. Business Overview
2. Key Growth Priorities
3. Financial Analysis
4. Outlook
5. Appendices

1

BUSINESS OVERVIEW

For personal use only

BUSINESS OVERVIEW | HIGHLIGHTS

For personal use only

- Continuous business improvement focus delivers profit growth across most key metrics, compared against the previous corresponding period ('PCP'):
  - NPAT improved by 36.8%.
  - EPS increased by 37.0%.
  - Underlying EBITDA increased by 12.7%.
  - Achieved despite comparative sales growth for the period of -2.0%.
  - Revenue decline of -1.0% in challenging trading period.
  - Gross margin increased, due to:
    - Better negotiated product cost prices;
    - Higher average selling prices;
    - Reducing duty charge;

    Offset by

    - strengthening USD on cost of purchases (7 cents/9%).
  - Adjusted costs of doing business ('CODB') increased by $0.9m.
- Rivers achieved an EBITDA profit for the half.
- City Chic's continued growth domestically and internationally.
- Online sales up 28% to $45.6m, which represents 10.6% of total revenues.
- Store portfolio: 1,066 stores plus 29 concession locations in Myer (a further 15 Myer concession locations opened in H1 FY17).

	Income statement		
	H1FY17	H1FY16	FY16
Revenue (A$m)	430.0	434.3	826.2
Revenue growth	(1.0%)	5.2%	4.4%
*Gross profit (A$m)	249.4	243.7	454.3
Gross margin %	58.0%	56.1%	55.0%
**EBITDA (A$m)	30.4	27.0	25.0
EBITDA margin %	7.1%	6.2%	3.0%
NPAT (A$m)	12.1	8.8	(2.2)
NPAT margin %	2.8%	2.0%	(0.3%)
Basic EPS (cents/share)	6.3	4.6	(1.1)
Costs of Doing Business			
*CODB	219.1	218.2	431.1
CODB %	51.0%	50.2%	52.2%

* Reclassification of $4.7m warehousing costs from CODB to Gross Margin in H1 FY16 for comparability.
** EBITDA for H1FY16 is on an underlying basis,
See Appendix for full reconciliations.

BUSINESS OVERVIEW | HIGHLIGHTS

For personal use only

- Inventories higher than LY mainly due to increased holdings in City Chic USA and increased stock in transit due to earlier Chinese New Year in 2017.
- CAPEX (PP&E and intangibles) driven by investment in stores and e-commerce platform.
- Net cash position of $12.3m: cash of $18.6m less borrowings of $6.3m. (Net cash position PCP $1.4m).
- Foreign currency: Average FX rate for the half of US$0.73 achieved versus US$0.80 in H1FY16. Average cover at US$0.73 until 30 June 2017.
- Net movement in working capital reflects net impact of:
  - higher inventories offset by
  - increased trade and other payables.
- Extended trading terms renegotiated with direct suppliers.

	Balance sheet and Cashflow items, Other information		
	Dec 16	Jun 16	Dec 15
Inventory (A$m)	99.0	88.7	84.6
PP&E (A$m)	65.7	73.6	74.5
Intangibles (A$m)	22.4	21.1	18.6
Net cash / (debt) (A$m)	12.3	(13.3)	1.4
Net working capital (A$m)	4.6	10.6	14.4
Net assets (A$m)	75.9	55.6	74.4
Capital expenditures including intangibles, net (A$m)	8.2	16.0	7.4
Net operating cash flow (A$m)	33.9	30.7	36.8
Free cash flow (A$m)	25.6	14.7	29.4
# of stores at period end*	**1,095**	**1,092**	**1,089**

* Includes 29 concession sites in Myer (30 June 2016: 14).

BUSINESS OVERVIEW | OMNI-CHANNEL STRATEGY

For personal use only

- Omni-channel strategy is delivering growth.
- Leveraging customer database to give seamless shopping experience in stores and online.
- 'Click and collect' entrenched in our brands.
- Opened 28 new stores; closed 25 stores. Total of 1,066 stores and 29 concession sites at period end:
  - Opened 15 concession sites in Myer;
  - 14 existing stores refurbished.
- 28% growth in online sales to $45.6m (PCP $35.7m), representing 10.6% of total revenues (PCP 8.2%).
- Database membership growth and continued success of insights-driven digital strategy.
- In-house customer insights team and CRM platform drive positive results; customer membership database: over 8.5m members.

Brands	Online sales % of Total
Millers	4.4%
Katies	6.9%
Crossroads	7.3%
Autograph	14.1%
City Chic	28.7%
Rivers	5.8%
Group	10.6%

City Chic online includes dropship trading on Nordstrom and Macy's websites.

	H1FY17	H1FY16	Growth
Total Revenue (A$m)	430.0	434.3	(1.0%)
Online Sales (A$m)	45.6	39.1	16.6%
Online Sales % of total revenue	10.6%	9.0%	17.8%
Excluding wholesale revenue (A$m)	-	(3.5)	
Comparable Online Sales (A$m)	45.6	35.7	28.0%
Comparable Online Sales % of total revenue	10.6%	8.2%	29.2%

* Wholesale included in Online % for H1 FY16, excluded for H2 FY16 and H1 FY17.

BUSINESS OVERVIEW | KEY BRANDS AND OPERATIONS

	Millers	KATIES	AUTOGRAPH	crossroads	city chic	rivers
Target Market	Affordable, thoughtful fashion that suits her lifestyle and make her look and feel amazing.	Value based fashion for the ageless and feminine woman.	Modern, relaxed and accentuating fashion for plus-size women in sizes 14 to 26.	Affordable fashion in sizes 8 to 22, for the fashion-conscious woman.	Bold, sexy and glam fashion for the younger plus-size woman.	Quality and comfort clothing and footwear for mature Australian men and women.
Indicative Price Point	$12-$70	$20-$120	$20-$100	$15-$65	$59-$250	$15-$120
Product Range	Female Apparel (Plus Size and Mature)					Adult Apparel & Footwear
# of Stores	352	149	131	173	133*	153
Loyalty Program Marketing Highlight	Launched Millers' "Everything life is" campaign across multiple channels.	Rebranding and launch of Studio East by Katies (sizes 14-26).	Redefined and launched our Product and Brand DNA – bringing our product to life with a cheeky sense of optimism.	Successfully launched website onto new platform and implemented creative brand refresh.	International partnership growth including ASOS and opening of Macy's Dream Doors.	Achieved sign-ups to our loyalty programme via SMS doubled following launch of retention drive.
H1 FY17 Net Sales: Online as % of Total	4%	7%	14%	7%	29%	6%

*Includes 29 concession locations in Myer at 31 December 2016 (30 June 2016: 14).

For personal use only

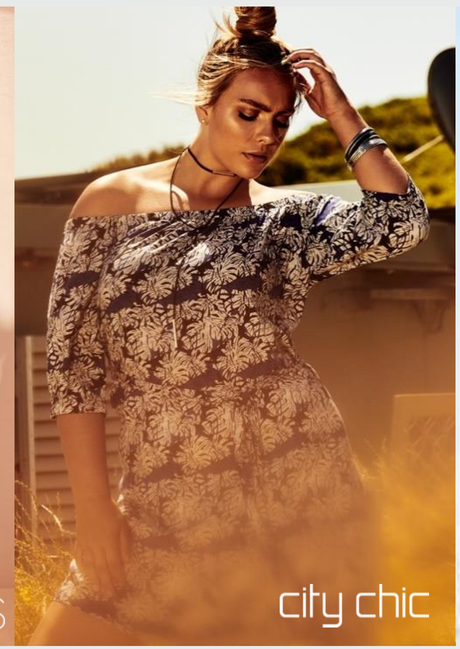
For personal use only

2

KEY GROWTH PRIORITIES

KEY GROWTH PRIORITIES

- Key growth priorities are:
  - Rejuvenation of existing brands across the Group continues;
  - Completing Rivers' transformation and building sustainable profitability; and
  - City Chic offshore expansion – including building multi-channel platform in USA.



For personal use only

KEY GROWTH PRIORITIES | BRAND REJUVENATION

For personal use only

Millers

- The brand continues to rejuvenate its offer.
- Strong 19.3% online sales growth, representing 4.4% of sales and continues to grow.
- New in-store and online branding initiatives well received.
- 11 existing sites rebranded using new Millers' design concept.
- 53 stores have been rebranded to date, and are performing above the brand’s average.
- Growth expected to continue in H2 FY17, supported by:
    - further roll out of new Millers’ store design concept;
    - opening of new stores; and
    - increased online sales.

KEY GROWTH PRIORITIES | RIVERS' TRANSFORMATION

rivers

- Transformation well on-track. Underlying EBITDA profit made in H1 FY17.
- Experienced management team executing turnaround strategy.
- Positive customer response to product offer across all categories.
- Significant headway achieved in reducing Rivers' CODB.
- Customer membership database continues to grow.
- 23.6% uplift in online sales compared to PCP. Strong trend of repeat purchases by registered rewards customers continues.
- Inventories clean with omni-channel strategy and increased refinement in merchandise planning.
- No complacency, though remain confident Rivers will maintain its growth momentum and achieve a much improved result this year over PCP.

For personal use only

KEY GROWTH PRIORITIES | OFFSHORE EXPANSION

city chic

- Continue to build multi-channel platform in USA.
- Wholesale distribution into 140 Macy's stores.
- Successful product trials in Evans (The Arcadia Group) in UK, supported by ongoing repeat orders.
- Significant uplift in Nordstrom sales through wholesale and online, exceeding expectations.
- Locally, City Chic rolled out a further 15 new concession sites into Myer during H1 FY17, bringing the total concession sites to 29.

City Chic International Representation

For personal use only

SOCIAL RESPONSIBILITY & COMPLIANCE

For personal use only

Ethical Trade

Focus on developing Ethical Sourcing policies to ensure we build a fully transparent supply chain.

Key Updates

- Relaunched Code of Conduct and Ethical sourcing policies to entire vendor base.
- All human rights policies defined to International Labour Organisation ('ILO') standards.
- Redefined ethical sourcing policies: more emphasis on workers human rights, participation in worker health and safety committees and social accountability.
- Implemented animal welfare policy.

Key Milestones

- Introduced Vendor "MAKE YOUR MARK" program.
- Rolled out/trained vendors on 10 Rules of Engagement.
- Traced/implemented Farm to Factory audits on key cotton programs.

On-going focus

- Launch worker grievance hotline/anonymous email – to create mechanism for all factory workers to voice concerns around safety or working conditions.
- April 2017 – Implement training program for worker participation and safety committees.

Occupational Health & Safety (OH&S)

OHS/ WHS and Health Management Strategies ensure SFG safe and healthy environment for customers and employees.

Key Milestones

Concluded second Health & Wellbeing initiative: OneEighty.
Full implementation of health-outcome focused workers' compensation initiative: Recover@Work.

Key results to date:

- 44% reduction in Lost Time Injuries (LTI's), ending calendar year (since projects launched) with total reduction of 54%.
- 10% decrease in incidents, furthering on last year's 10% group reduction. Results achieved through continued high engagement rates across network.

On-going focus

- Expanding on the OneEighty and Recover@Work programs; including full implementation at Support Office.

For personal use only

3

FINANCIAL ANALYSIS

SPECIALTY FASHION | GROUP

GROUP TRADING | HALF-YEAR ENDED 31 DECEMBER 2016

For personal use only

- Revenue decline driven by fewer units sold albeit at a higher average selling price ('ASP') as the Group drives a 'First Price, Right Price' strategy.
- Benefits derived at gross profit level from on-going shift to directly sourced product.
- Gross margin increase mainly due to:
  - Increased ASP (up 3.6% on PCP); and
  - Improved underlying cost price – stronger USD fully offset by better price negotiation and duty reductions.
- Costs of doing business increased by $0.9m/0.4% as inflation was partly offset by tight cost control.
- Underlying EBITDA of $30.4m up on PCP by $3.4m/12.7%.

	H1FY17 $'000	H1FY16 $'000	Change %
Revenue	430,032	434,303	(1.0%)
Gross Profit	249,410	243,722	1.9%
	58.0%	56.1%	
Underlying EBITDA	30,372	26,955	12.7%
EBIT	19,595	15,162	29.2%
Profit before tax	18,479	13,580	36.1%
Net profit after tax	12,059	8,818	36.8%
Basic earnings per share (cents)	6.3	4.6	37.0%
CODB	219,105	218,244	0.4%
	51.0%	50.2%	

Reclassification of $4.7m warehousing costs from CODB to Gross Margin in H1 FY16 for comparability.
See Appendix for full reconciliation.

GROUP CASHFLOW | HALF-YEAR ENDED 31 DECEMBER 2016

For personal use only

WORKING CAPITAL

- Net movement reflects impact of
  - higher inventories as a result of increased holdings to support wholesale growth in the USA; and
  - increased trade and other payables.
- Use of trade finance facility and proactive negotiations extended trading terms with direct suppliers with on-going repeat orders.

CAPEX (PP&E and intangible assets)

- Total net capex including intangibles additions of $8.2m (PCP $7.4m) primarily for stores and investment in IT infrastructure.

NET CASH/DEBT

- Net cash position of $12.3m comprising cash of $18.6m less borrowings of $6.3m (Net cash position PCP $1.4m).
- $61.0m bank loan facilities with $50.4m unused at 31 December 2016.
- Total available facilities will be $52.0m at 30 June 2017, in line with FY16 reduction, reflecting the lower borrowing requirements of the Group.
- Bank loan facilities in compliance with bank covenants.
- Reducing bank facility to $42.0m by February 2018.

DIVIDENDS

- Board resolved not to declare an interim dividend.

	H1FY17 $'000	H1FY16 $'000
Underlying EBITDA	30,372	26,955
Restructuring costs	-	(1,527)
Net working capital	4,610	14,419
Net interest	(1,116)	(1,582)
Net taxes	-	(1,458)
Operating cash flow	**33,866**	**36,807**
Net capex including intangibles	(8,224)	(7,430)
Free cash flow	**25,642**	**29,377**
Borrowings	(25,927)	(23,216)
Dividends	-	-
Net cash flow	**(285)**	**6,161**

4

OUTLOOK

For personal use only

OUTLOOK | A VIEW OF THE FUTURE

For personal use only

- The uncertainty of the trading outlook is heightened by ‘new normal’ market volatility.
- SFG has proven agility to navigate turbulent trading conditions.
- The focus is to remain vigilant in delivering earnings growth.
- The Group is confident in the strategy: to be a leading Omni-channel retailer in a specialised category where we have a proven track record, scale, insight, and momentum.

For personal use only

5

APPENDICES

EBITDA | RECONCILIATION

	H1FY17 $'000	H1FY16 $'000
Profit before tax	18,479	13,580
Interest expense	1,155	1,627
Interest revenue	(39)	(45)
EBIT	19,595	15,162
Restructuring costs	-	1,527
Depreciation, amortisation and impairment	10,671	10,271
Revaluation of options	106	(5)
Underlying EBITDA	**30,372**	**26,955**

For personal use only

H1 FY16 RECLASSIFICATION RECONCILIATION | HALF-YEAR ENDED 31 DECEMBER 2016

For personal use only

	Income statement		
	H1FY17	H1FY16	FY16
Revenue (A$m)	430.0	434.3	826.2
Revenue growth	(1.0%)	5.2%	4.4%
Gross profit (A$m)	249.4	248.4	459.1
Gross margin %	58.0%	57.2%	55.6%
*Reclassifcation adjustment (A$m)**	*0.0*	*(4.7)*	*(4.8)*
Adjusted gross profit (A$m)	249.4	243.7	454.3
Adjusted gross margin %	58.0%	56.1%	55.0%
Underlying EBITDA (A$m)	30.4	27.0	25.0
Underlying EBITDA margin %	7.1%	6.2%	3.0%
NPAT (A$m)	12.1	8.8	(2.2)
NPAT margin %	2.8%	2.0%	(0.3%)
Basic EPS (cents/share)	6.3	4.6	(1.1)
Costs of Doing Business			
CODB	219.1	222.9	435.9
CODB %	51.0%	51.3%	52.8%
*Reclassifcation adjustment (A$m)**	*0.0*	*(4.7)*	*(4.8)*
Adjusted CODB(A$m)	219.1	218.2	431.1
Adjusted CODB %	51.0%	50.2%	52.2%

*As referenced on slide 5 and 16.

For personal use only

STORE MOVEMENTS | HALF-YEAR ENDED 31 DECEMBER 2016

	Store movements				Store Location			
	Stores 1 Jul 16	New	Closed	Stores 31 Dec 16	Stores AU	Stores NZ	Stores USA	Stores RSA
Millers	355	1	(4)	352	325	27	-	-
KATIES	148	1	-	149	149	-	-	-
crossroads	182	1	(10)	173	166	7	-	-
AUTOGRAPH	138	1	(8)	131	124	7	-	-
city chic *	118	15	-	133	113	12	6	2
rivers	151	5	(3)	153	153	-	-	-
ONE WOMAN	-	4	-	4	3	1		
Total	**1,092**	**28**	**(25)**	**1,095**	**1,033**	**54**	**6**	**2**

* Includes 29 concession sites in Myer at 31 December 2016 (30 June 2016: 14).

STORE & OTHER CAPEX | HALF-YEAR ENDED 31 DECEMBER 2016

For personal use only

	H1FY17 $'000	H1FY16 $'000
New stores	2,434	1,732
Refurbishments & relocations	3,774	3,199
IT capex	1,761	1,791
Head office capex	262	437
Other capex	353	439
Proceeds from disposals	(360)	(168)
Total net capex	**8,224**	**7,430**

	New stores $'000	Refurbs & relocations $'000	Total H1FY17 $'000
Millers	269	798	1,105
KATIES	80	1,502	1,593
crossroads	128	148	294
AUTOGRAPH	59	168	236
city chic	321	129	494
rivers	1,281	1,024	2,481
ONE WOMAN	296	5	301
	2,434	**3,774**	**6,504**

For personal use only

END

"WE WILL BE A GLOBAL MARKET LEADER AS OUR BRANDS CHANGE THE PERCEPTION OF FASHION"

AUTOGRAPH city chic crossroads KATIES Millers rivers