

9 February 2018

Unaudited Preliminary 1H FY2018 Result

Specialty Fashion Group (ASX:SFH) (SFG or the Group) today announced its unaudited preliminary results for the first six months of FY2018.

SFG Chairman Anne McDonald said,

“In a competitive retail environment, good progress was made towards our objective of building a platform for profitable, sustainable growth, and transforming the business into an agile omnichannel retailer with a strong and visible presence online and on the high street.

“Central to this has been a program to optimise the store network, including the closure of unprofitable stores. Store teams have been retained or redeployed wherever possible and we have made significant investment towards the enhancement of our online platform to provide customers with a compelling digital alternative.

“Whilst it is early days, we are pleased with the results from store optimisation and cost management initiatives, and are encouraged by the Group’s trading performance over the Christmas period in what was a very competitive environment.”

1H FY2018 Summary

Highlights of the unaudited preliminary result for the half year ended 31 December 2017 include:

- Underlying EBITDA¹ for the period of \$18.5 million (1H FY2017: \$30.4 million), subject to final auditor review. This is above the forecast range (\$14-17 million) provided in October 2017 due to better than anticipated trading over the Christmas period, combined with a reduction in costs associated with the Group’s store optimisation and cost management initiatives.
- Inventory management remained a key focus during the period. Inventory on hand fell by \$17.1m or 17.2% to \$81.9 million (1HFY2017: \$99.0 million) underpinned by improved buying practices and greater vigilance on unproductive ranges, reduction in store numbers, and Chinese New Year timing shift.
- Sales revenue for the period of \$399 million (1H FY2017: \$430 million). Comparable store sales for the half were -3.3% (1H FY2017: -2.0%) with weak Q1 trading partially offset by an improvement during Q2.
 - City Chic delivered strong growth across all markets. Autograph now integrated within City Chic’s lean cost structure and starting to deliver improved margin momentum
 - Millers, Crossroads and Katies were negatively impacted by heavy promotional activity and poor product selections early in the season. Corrective action is delivering improved performance
 - Rivers Women’s performance was solid but further work is required to improve the Men’s offer
 - Online sales revenue grew 14.0% to \$49.1m, representing 12.3% of total revenues (1H FY2017: 10.0%³).

¹ Underlying EBITDA adjusted by \$1.6m

² Underlying Cost adjusted by \$1.58m (restructure costs (\$1.83m), Provision for store closure costs (\$1.11m) less Government employee Incentive payments (-\$1.36m)

³ Based on net online sales

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- Earnings impacted by gross margin contraction to 55.9% (1H FY2017: 58.0%) primarily attributable to aggressive promotional activity (particularly during Q1). This was partially offset by a tightened focus on key promotional levers, inventory management, and improved ranges as the period progressed.
 - Earnings were also impacted by restructuring costs of \$1.6 million relating to the business transformation program. These costs were largely associated with Support office redundancies and provision for accelerated store closure costs, less a one off employee incentive payments.
 - Ongoing pursuit of cost management and business simplification initiatives resulted in a \$14.4 million² reduction in underlying costs, including \$6.4m of annual cost reductions via a leaner Support office.
 - Good progress was made on the program to optimise the store portfolio, with the Group finishing the period with 999 stores (1H FY2017:1,066).
 - The Group's cash position strengthened over the half. At period end the Group had a net cash position of \$21.3 million (31 December 2016: \$12.3 million) and unutilised bank facilities of \$34.3 million available for funding requirements. Bank borrowings of \$19.3 million were paid down during the period.

SFG will publish its full audited financial results for the six months ended 31 December 2017 on 22 February 2018.

Structural Review

The Structural Review announced at the AGM is ongoing. The scope of this Review is broad and includes an assessment of all options and opportunities to improve shareholder value.

As announced on 31 January 2018, a number of confidential, non-binding, indicative proposals for a change of control of the Group or the acquisition of certain brands have been received. There is no certainty that any of these proposals will result in a binding offer, or that any offer would be recommended by the Board's Investment Review Committee.

This process, including due diligence, is ongoing and discussions are not regarded as sufficiently advanced to warrant further disclosure. The Group will keep shareholders fully informed in accordance with its continuous disclosure obligations.

2H FY2018 Business Priorities

Key priorities for the second half of FY18 include:

- Continuing to execute the Group's store optimisation program and transformation program as we reduce store numbers and simplify the business
- Leveraging shared back of house functions across City Chic/Autograph and Millers/Crossroads to deliver a more consumer led proposition
- Continue to refine and enhance the core Rivers offer, particularly in menswear
- New team at Millers/Crossroads and Katies continue to drive improved range and deliver improved margins
- Continue to enhance and grow online offer.

1H FY2018 Preliminary Unaudited Income Statement

	1H FY2018	1H FY2017	FY 2017
Revenue	\$399.0m	430.0m	808.9m
<i>Revenue growth %</i>	-7.2%	-1.0%	-2.1%
Underlying CODB	\$204.7m	\$219.1m	\$426.2m
<i>Underlying CODB %</i>	51.3%	51.0%	52.7%
Gross Profit	\$223.2m	\$249.4m	\$452.8m
<i>Gross Margin %</i>	55.9%	58.0%	56.0%
Underlying EBITDA	\$18.5m	\$30.4m	\$26.7m
<i>Underlying EBITDA margin</i>	4.6%	7.1%	3.3%
EBITDA	\$16.9m	\$30.4m	\$20.4m
Underlying NPBT	\$6.2m	\$18.5m	\$2.3m
NPAT	\$3.1m	\$12.1m	(\$8.4m)
Basic EPS	1.6c	6.3c	(4.4c)

1H FY2018 Preliminary Unaudited Balance Sheet & Cash Flow, Other information

	1H FY2018	1H FY2017	FY 2017
Inventory	\$81.9m	\$99.0m	\$90.8m
PP&E	\$51.0m	\$65.7m	\$57.3m
Intangibles	\$24.0m	\$22.4m	\$23.0m
Net cash/(debt)	\$21.3m	\$12.3m	(\$8.3m)
Movement in net working capital	\$25.8m	\$4.6m	\$4.4m
Capital expenditure	\$6.1m	\$8.2m	\$15.9m
Net operating cash flow	\$35.7m	\$33.9m	\$20.6m
# stores at period end	999	1,095	1,043

Further information:**Investors**

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