

SPECIALTY FASHION | GROUP

ASX Announcement
14 May 2018

Specialty Fashion Group concludes Structural Review Five brands to be divested and City Chic retained

Structural Review Outcomes Summary

- Sale of the Millers, Katies, Crossroads, Autograph and Rivers portfolio of businesses to Noni B Limited for \$31.0m in cash, subject to customary conditions
- SFH to remain listed and retain ownership of City Chic, the most profitable brand in the portfolio with strong historical earnings growth and an attractive outlook
- City Chic is a market leader in the plus-size women's apparel market with strong online global sales and blue-chip wholesale/drop-ship partnerships. City Chic is forecast to generate \$19.0m - \$20.0m Underlying (Pro-Forma) EBITDA in FY18¹
- Divestment crystallises near term value for SFH's capital intensive, challenged businesses. These businesses incurred EBITDA losses of \$6.2m in aggregate in the 12 months to 31 December 2017²
- Sale proceeds to be used to recapitalise SFH and strengthen the balance sheet, creating a stronger platform for future growth of City Chic
- Divestment is expected to unlock the opportunity for future distributions of fully franked dividends. The Board will confirm its intentions regarding SFH's future dividend policy at its 2018 Annual General Meeting, expected to be held in November 2018
- The Independent Review Committee of the Board unanimously considers the Divestment to be in the best interests of shareholders

Specialty Fashion Group Limited (ASX: SFH) (**SFH** or **Group**) announces today that, following the completion of its previously announced Structural Review, SFH has entered into an agreement to sell the Millers, Katies, Crossroads, Autograph and Rivers portfolio of businesses to Noni B Limited (ASX: NBL) (**Noni B**) for \$31.0m (**Divestment**), subject to customary conditions.

The Board believes that divestment of these businesses will enhance shareholder value by realising attractive near-term value from the sale, recapitalising SFH and enabling management to focus wholly on City Chic's strategic priorities and longer term growth agenda.

¹ Includes a pro-forma adjustment of circa \$4.2m to reflect additional estimated support office costs for the City Chic brand for FY18F as compared to current SFH support office cost allocation.

² Based on current SFH head office cost allocation.

In November 2017, the Board announced a Structural Review and established an Independent Review Committee (**IRC**) to assess options and opportunities to improve shareholder value.

Chair of SFH and the IRC, Anne McDonald, said: “As part of the Structural Review, the IRC carefully considered a range of options, including whole of company transactions, divestment of brands and a capital raising. The Directors unanimously concluded that the retention of City Chic and the divestment of SFH’s other brands will optimise value for SFH shareholders.”

Commenting on the rationale for the Divestment, Ms McDonald said: “In a challenging and rapidly changing retail environment, SFH has been successful in building City Chic into a market leader in the attractive plus-size segment of the women’s apparel market. The business has strong cash flow generation and significant future earnings growth potential. The transaction will provide the funding flexibility, corporate structure and management focus required to realise City Chic’s longer term full potential.

“The Board considers that a significant turnaround is required to reset the other businesses in the portfolio, and that this would require time, capital and carry material execution risk. Divestment of these businesses crystallises near term value and provides certainty for shareholders.”

“On behalf of the Board, I would like to acknowledge and thank SFH’s employees for their tireless efforts and focus on our customers during the course of the Structural Review process. In particular I would like to acknowledge the contribution of SFH’s CEO, Daniel Bracken. He has provided strong leadership and ensured that the team has stayed focused on running the business. His perspectives and expertise have been invaluable to the Structural Review,” said Ms McDonald.

SFH CEO, Daniel Bracken said: “City Chic has achieved considerable success embracing and leveraging the forces disrupting retail and has executed its omni-channel strategy exceptionally well.”

“With online representing 37% of sales³ and strong brand recognition in Australia, New Zealand and increasingly overseas, the growth potential for this truly customer-led brand is significant.”

“Under a simplified corporate structure with the right funding support, City Chic will be well-placed to accelerate the execution of its growth strategy to become a global brand,” said Mr Bracken.

³ Sales contribution FY18 YTD.

Divestment benefits

The major advantages of the Divestment include:

1. Substantial value realised for challenged businesses

The sale consideration of \$31.0m represents substantial value for Millers, Katies, Crossroads, Autograph and Rivers. When taken together, these brands generated an EBITDA loss of \$6.2m⁴ and EBIT loss of \$25.7m⁴ in the 12 months to December 2017.

2. Retain high growth City Chic brand

Post Divestment, SFH will remain listed with a significantly streamlined operating model and a singular focus on its continuing business, City Chic.

City Chic has consistently been SFH's best performing and most profitable business unit, driven by its market leadership, customer-led offer, innovative digital strategy, and tiered loyalty program with 315,000 active customers.

City Chic is a market leader in an attractive segment of the plus-size women's apparel market. The business has a strong multi-channel offering including 110 stores in Australia and New Zealand⁵, a market leading online platform with sales penetration of 37% in FY18 to date, and a rapidly growing drop-ship and online business in North America and Europe.

City Chic achieved 16.6% comparable sales growth in the 12 months to December 2017 and online sales growth PCP of 23% in FY18 to date. The business is forecast to generate \$19.0m - \$20.0m Underlying (Pro-Forma) EBITDA in FY18.

City Chic Pro-Forma Financial Performance (Unaudited)

| | FY16A | FY17A | 12 months to Dec 2017 | FY18F |
|---|-----------------|-----------------|--------------------------|----------------------------|
| <i>Store Number (period end)</i> ⁵ | 118 | 116 | 115 | |
| Revenue | \$112.6m | \$129.0m | \$134.2m | \$138.0m – \$140.0m |
| <i>Revenue Growth Versus PCP</i> | 26.7% | 14.5% | 11.2% | |
| <i>Comparable Sales Growth</i> ⁶ | 23.3% | 6.7% | 16.6% | |
| Gross Profit | \$63.1m | \$72.3m | \$72.7m | |
| <i>Gross Profit Margin</i> | 56.0% | 56.0% | 54.2% | |
| Underlying Cost of Doing Business (Pro-Forma) ⁷ | \$54.7m | \$61.2m | \$58.6m | |
| Underlying EBITDA (Pro-Forma) ⁷ | \$8.4m | \$11.1m | \$14.1m | \$19.0m – \$20.0m |
| <i>EBITDA Margin</i> | 7.5% | 8.6% | 10.5% | |
| Underlying EBIT (Pro-Forma) ⁷ | \$4.9m | \$6.3m | \$9.7m | |
| <i>EBIT Margin</i> | 4.4% | 4.9% | 7.3% | |

⁴ Based on current SFH head office cost allocation.

⁵ Including Myer concessions.

⁶ Excluding wholesale sales.

⁷ Includes a pro-forma adjustment of circa \$4.2m to reflect additional estimated support office costs for the City Chic brand for FY18F as compared to current SFH support office cost allocation.

City Chic has strong future growth prospects, supported by:

- Significant momentum in customer acquisition in the USA, driven primarily by increasing brand awareness
- Further online growth from improved customer experience, in-store digital experience, innovative digital marketing, and product range extensions
- Wholesale partnership opportunities in new markets
- Growth in UK and Europe drop-ship model
- Store format and product range extensions in core Australia and New Zealand markets
- Leveraging significant and growing customer database

Please refer to the Structural Review Update presentation lodged today with ASX for further detail on City Chic's strategy and growth plans.

3. Strengthened balance sheet

Upon completion, the Divestment will deliver \$31.0m of cash (before transaction and separation costs), which will be used to recapitalise SFH and support City Chic's growth agenda. The Divestment is expected to occur at a point in the year when the Millers, Katies, Crossroads, Autograph and Rivers businesses have cyclically low working capital, which has an incremental value benefit to SFH.

In addition, the divestment of the capital intensive Millers, Katies, Crossroads, Autograph and Rivers businesses will deliver a significant working capital benefit to SFH, by relieving it from maintenance of substantial inventory levels during peak seasonal periods.

4. Ability to pay fully franked future dividends

The future projected profitability and cash flow generation⁸ of City Chic together with SFH's existing franking credit position are anticipated to allow future payments of fully franked dividends to shareholders over time. The Board will confirm to shareholders its intentions regarding SFH's future dividend policy at its 2018 Annual General Meeting, expected to be held in November 2018.

Other information

The Structural Review Update lodged today with ASX includes unaudited pro-forma financial information of SFH showing the likely effect of the Divestment on SFH's financial position (including its consolidated total assets, total equity interests, annual revenue, EBITDA and annual profit before tax).

SFH advises that its full year result for FY18 is expected to be at the upper end of the prior guidance range, which was Underlying EBITDA for the Group of between \$14.0 million to \$20.0 million.

⁸ SFH will maintain its tax loss balance in the USA of US\$9.8m as at 31 December 2017.

Management and Board Renewal

SFG's corporate leaders and all members of the City Chic management team will be retained by the Group.

Daniel Bracken will continue as CEO & Managing Director of the company following completion of the transaction to oversee the separation and transition process. It is expected that he will step down prior to the Annual General Meeting expected to be held in November 2018 after a phased handover to Phil Ryan, currently General Manager - City Chic, who will become CEO on Daniel's departure.

City Chic's long-standing management team will continue to run the City Chic business. This team has spent an average of 10 years of working on and developing the City Chic brand and has been responsible for driving its strong growth to date.

Phil Ryan said he was delighted to lead City Chic and take up the role of CEO later in the year, "The City Chic brand is customer led in every way. We are excited to have this opportunity to accelerate its strong momentum and take the brand forward to seize the opportunities it has for growth in Australia and abroad."

As the company moves forward with a new structure and focus post completion, the Board intends to continue the process of Board renewal it commenced last year. It is planned that at least one new non-executive Director will be appointed to the Board ahead of the AGM. As previously announced, Ashley Hardwick has advised that he will not stand for re-election as a non-executive Director at this year's AGM.

Separation and transition

Noni B will acquire all assets, employees and liabilities which support the Millers, Katies, Crossroads, Autograph and Rivers businesses (including employees relating to Support Services functions) except for those required to support SFH as a listed company. Concurrent with entering into the business sale agreement in respect of the Divestment, SFH has also entered into a transitional services agreement with Noni B to facilitate a smooth and orderly separation and transition of the divesting businesses for SFH's customers, employees and other stakeholders.

Conditions precedent

The Divestment is subject to customary conditions precedent.

SFH has consulted with the ASX and the ASX confirmed that the transaction does not constitute the disposal of SFH's main undertaking and therefore shareholder approval is not required under Chapter 11 of the ASX Listing Rules.

Additional information

A Structural Review Update presentation, which explains the Divestment in more detail, has been lodged today with ASX together with this Announcement.

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About Specialty Fashion Group

Specialty Fashion Group is the largest retailer of women's fashion in Australasia, through City Chic, Millers, Katies, Crossroads, Autograph and Rivers.

About Noni B

Noni B Limited, founded in 1977, is one of Australia's leading fashion retailers, with over 640 stores nationally across its brands Noni B, W Lane, BeMe and Rockmans.

Important information

This announcement contains summary information about SFH which is current as at the date of this announcement. The information in this announcement is of a general nature and does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in SFH or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act 2001 (Cth). No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this announcement. To the maximum extent permitted by law, SFH and its affiliates and related bodies corporate, and their respective officers, directors, employees and agents disclaim any liability (including, without limitation, any liability arising from fault or negligence for any loss arising from any use of this presentation (or its content) or otherwise arising in connection with it).

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