

2018 Annual General Meeting

9 November 2018

Chairman's Address

Good morning and I would like to welcome you all to Specialty Fashion Group's 2018 Annual General Meeting.

2018 has been an historic year for the company. What a difference a year has made. At last year's AGM, we promised to improve shareholder value and deliver change through a comprehensive structural review.

Following completion of that review, the Board determined that the divestment of five of our six brands and the retention of the City Chic business was in the best interests of shareholders.

Investors responded positively to this announcement in May 2018 and there has been a significant improvement in our share price as a result.

Most importantly, the divestment transformed our financial position with debt fully repaid and we started the 2019 financial year with a net cash position of approximately \$25m after allowing for post transaction settlement and separation costs. We now have a new three-year \$15m debt facility that more appropriately reflects our future funding requirements.

From SFG to City Chic

With the divestment behind us, our sole focus is on City Chic as a continuing business, its strategic priorities and long term growth agenda.

City Chic has consistently been SFG's best performing and most profitable business unit driven by its market leadership of the plus size apparel segment, exceptional customer-led focus and innovative digital strategy. Its growth, domestically and internationally, particularly in online has been outstanding.

For the first time, we have the opportunity to really invest in this brand; enhancing the digital platform, expanding our offer locally and globally and enriching our customer experience with a broader product range and stronger multi-channel offering. This includes further development of our store network, with new store openings and the roll out of a number of larger format stores in Australia and New Zealand.

A central factor in City Chic's success has been its incredible team who have a unique connection with their customer. To ensure we retain and appropriately incentivise our senior management team, many of whom had been with City Chic for many years, we have put in place a remuneration structure which aligns their interests with those of shareholders.

We are asking you today to support a change in our company name to City Chic Collective. A lot of thought has gone into finding a name which best represents our values as a

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standalone business and at its core is the notion of a collective, comprising our team, our partners and our strong customer community. Phil Ryan will have more to say on this later.

Capital management

At the full year result the Board announced the recommencement of dividend payments in the 2019 financial year. The Board determined that the dividend policy will have a minimum payout ratio of 50% of Net Profit after Tax.

The Board continues to consider other capital management options to deliver the most optimal return on capital for our shareholders. The recapitalisation of the company and transition to a standalone business means that the Board can now turn its mind to considering a range of strategic and growth opportunities and associated capital allocation.

In considering future capital management options, the Board is conscious of franking any future distributions. As a result, in financial year 2018 we resolved to reduce the share capital of the company. The effect of this adjustment was to eliminate prior year accumulated losses in the parent entity's financial statement thus resetting our opening retained earnings balance to zero. This removed any uncertainty about whether the company had the ability to frank future distributions. As you may be aware dividends can only be franked to the extent that they are paid out of retained earnings, and as such we can only fully frank a distribution to the extent it is made from the Australian component of our net profit after tax.

Board and management

With the company now focused on a single brand, we have appointed a management team who understand the City Chic business extremely well.

Phil Ryan, City Chic's longstanding General Manager replaced Daniel Bracken as CEO in October. Daniel was appointed Chief Executive Officer in February 2018 and made a significant contribution to SFG, delivering a transformative transaction and overseeing the subsequent separation and transition process.

Phil has over 25 years' experience in the retail sector and has been responsible for building City Chic into a market-leading plus size retailer. His deep understanding of the brand and more importantly, its customers, will be essential to driving future growth.

We announced earlier this week that our Chief Financial Officer Tim Fawaz will leave the company in late February 2019 to pursue another opportunity. While we are sorry to lose Tim, the Board's focus on succession planning means that our Head of Strategy & Corporate Development, Munraj Dhaliwal was ready to step into the role. Munraj has worked closely with Tim for over a year and knows the City Chic business well. He will continue to work closely with Tim in the lead up to the first half result before taking full responsibility for the CFO function.

Turning now to the Board, we were very pleased to welcome our Chairman-elect Michael Kay to SFG on 1 October 2018. Michael brings extensive commercial and governance experience as a non-executive director and as an executive across a range of industries. Michael was most recently Chairman of accessories retailer, Lovisa Holdings. You will hear from Michael shortly.

As previously announced, Ashley Hardwick will retire at the conclusion of this meeting. I would like to thank Ash for his outstanding contribution since joining the Board in 2012. The search for a fourth non-executive director to replace Ash is underway.

We also announced in September that I would retire as a non-executive director and Chairman at the conclusion of this meeting. I have enjoyed my time at SFG and it has been a privilege to serve as Chair over the past three years.

When I joined the Board in 2007, City Chic was in its infancy. I recall wondering whether this segment of the market would ever really take off. However, it did not take me long to realise that Phil Ryan's passion and enthusiasm was revolutionising plus size fashion for young women. What an extraordinary journey it has been. I believe the best is yet to come and I wish the Board and management team every success.

Finally, on behalf of the Board, we sincerely thank our entire Specialty Fashion team for their dedication and extraordinary efforts.

We extend our deep appreciation to our shareholders for their patience and ongoing support as we navigated the many challenges and opportunities of the past few years.

As a Board, we are proud to have delivered such a positive outcome for you.

To our loyal customers, who drive our passion and commitment to meeting your needs, thank you.

This is an exciting new chapter for the company, the beginning of a City Chic era and on that note, I am delighted to introduce you to our new CEO, Phil Ryan.

Over to you, Phil.

CEO'S ADDRESS

Thanks Anne and good morning ladies and gentleman.

I would like to add my welcome to that of the Chair to the 2018 Annual General Meeting.

I am delighted to join you as CEO of a restructured and rejuvenated Specialty Fashion Group.

City Chic is Australia's leading plus size retailer with a rapidly growing online business in Australia and the USA, and wholesale operations throughout the USA and Europe. As I will talk about in more detail, ours is a customer-led offering which serves fashion conscious women aged 18 to 35.

What we have achieved in City Chic is an agile yet disciplined retail business with the creative talents required to create an emotional connection with our customer in a growing niche market.

It is an exciting time for the company. With the successful divestment of five of our brands, we have transformed from a retail conglomerate operating across varying markets, to a niche player in the global plus size apparel market. This market is estimated at over \$50 billion annually and is one of the few growth areas in apparel retail.

City Chic will remain a niche player as we know the plus size consumer, what it takes to make her look great, and from this, drive demand. With the right corporate and capital structure now in place, we are well positioned to implement our vision of "leading a world of curves".

At City Chic, our people and unique culture are central to our success. There is incredible longevity in our management team and some of us, including myself, have been here since the brand was born in 2007. This is what drives our deep understanding of, and connection with, our customer.

We are now in a position to invest in City Chic through enhancing our digital platform, expanding our offer locally and internationally, and opening new and larger format stores; all of which will greatly enrich our customer experience. Retailing today is not about focusing on channels, it is about knowing your consumer and offering what she wants, where she wants it. And most importantly, it is about listening to her.

You have been asked to vote today on a resolution to change the company's name to City Chic Collective. I believe a name change is important because it marks a new beginning and better reflects our standalone business.

City Chic Collective is a name that came from within our team and was voted on by our team. It represents the many groups of people that make up City Chic - from our amazing team members across our stores and at Head Office - to most importantly, the sisterhood that is our customer. It highlights our unique culture and the special relationship City Chic has with its customers - an emotional connection that makes us all part of a City Chic Collective.

Before I outline the drivers of our success and our growth agenda, I will first review our 2018 financial results, which demonstrate City Chic's earnings momentum and potential as a standalone business.

City Chic's FY18 Result

In FY18, City Chic delivered strong results across all channels, with revenue of \$132m and EBITDA of \$19.9m. Comparable sales growth was 12.9% on the prior year.

Underlying EBITDA margins expanded to 15.1% as a result of strong online sales and an increased focus on costs. Online represented an impressive 36% of total sales reflecting the expansion of our online exclusive ranges and improved customer experience.

Our gross profit margin increased to 59% due to strong buying and promotional discipline, coupled with benefits from investments in our logistics and supply chain capabilities. This is a blended margin of all channels including wholesale. Underlying Cost of Doing Business (CODB) reduced significantly to 44.1% due to greater cost discipline and increased contribution from the lower cost online channel.

Our inventory is clean and continues to be managed very tightly. Any increase in inventory levels will be measured and supported by sales improvements as we drive our global growth.

The divestment has provided a strong and stable capital structure. At the beginning of the financial year we had a net cash position of around \$25m after transaction settlement and separation costs and a new three-year \$15m debt facility which will support our growth plans. City Chic is also a highly cash generative business with relatively low capital requirements.

Leading a world of curves

In 2007, our brand's vision was to be "The Leading Global Plus size Destination". We said this when we had only a few stores on the east coast of Australia. Our focus and intent has never changed and in 2018 this has evolved into "Leading a world of curves". We saw a gap in the market for fashionable plus size clothing, and have been driving our business to own that market position ever since.

The plus sized customer remains at the center of everything we do and it is the emotional connection, what we call the "sisterhood", that has been the key to our success.

We put her first, we know who she is. She keeps coming back to us because we make sure that every experience and every touchpoint she has is strong, whether it is in-store, online, across social media or via email. As a result, we have a well established customer base of 360,000 active customers who have a high level of repeat purchases.

Reinforcing our customer-centric business ethos, our supply chain and design process are led by the customer. For 12 years, the design team and I have looked at the sales of every garment we produce for the first three weeks. This provides a clear picture of who she is and what she wants from us. We react to that weekly, constantly reassessing our offering. We have an incredibly nimble supply chain that allows us to chase demand in season.

The culture we have created within City Chic further reflects our customer-centric approach. When we look for team members for our stores, we place a notice on our Facebook page and usually between 20 and 30 customers apply. They are happy and excited to work with us, wear our clothes and live the brand every day. In fact, they are our brand.

This inclusive culture extends to our senior management team, who as I mentioned earlier, have worked closely together for many years. Our Head of Brand, Carley Turner was there alongside me at the very beginning in 2007. The Head of Product & Design Lucy McMahon and the Head of Planning Larissa Belcher have been with the brand since 2008, and our Head of Operations Heath Robertshaw commenced in 2013. This long period of collaboration means the team has a deep understanding of our customer and the plus size segment, as well as a strong track record of working together to deliver outstanding results.

Completing our executive team, we have Sonia Moura, who has been Head of People and Culture at SFG for 12 years, Jordana Silver, our Head of International and Munraj Dhaliwal, our incoming CFO. The composition of our senior management team highlights our ongoing commitment to gender balance and diversity.

Omni-channel strategy

In February 2008, City Chic was one of the first traditional retailers to go online in Australia. Since then, we have been ahead of the curve in omni-channel retailing, driving market-leading online penetration rates while continuing to deliver sales growth in-store. Our multi-channel offering includes over 100 stores in Australia and New Zealand, a market-leading online platform with sales penetration of 36% and a rapidly growing online and marketplace business in the USA.

In the 2018 financial year, we successfully executed a number of initiatives to enhance our omni-channel offering including moving to a new e-commerce site in Australia which aligned our platform worldwide, implementing a new warehouse solution in the US and launching larger format stores which enrich the customer experience.

Our store network remains the backbone of our business, the primary point of contact with the customer and an important driver of online sales in Australia. Our store portfolio is predominantly made up of well located, small format stores, none of which are loss making.

Our multi-channel strategies have enabled us to drive incremental revenue through the expansion of the lifestyles we offer through online exclusive ranges. This includes having a more consistent casual offering and opens up new categories such as shoes. These initiatives allow us to reach different parts of her wallet as we can offer two and a half times the options online than are possible in a small format, 110 square metre store.

To address this increased lifestyle assortment, and create a better customer experience in-store, we have opened two larger format stores of 250sqm. They are located in Fountaingate and Logan, and initial customer reactions have been very positive. The broader product range is being rolled out in these stores to drive incremental share of wallet.

In the US, marketplace combined with wholesale channels such as Amazon, Macy's and Nordstrom's continue to drive brand recognition and strong momentum on our own website.

The Australian business has avoided the continual discounting cycles that have plagued the retail market over the last decade. This lack of discounting combined with 36% in digital sales and the seasonal balancing of a northern hemisphere business means that City Chic is profitable in all quarters of the year unlike many retail businesses.

At the end of the day, the trader in me believes that if you have a compelling offer with a compelling brand at the right price and right value, the customer will buy from you; and she has shown this again and again over many years.

IT and Infrastructure

Turning now to the infrastructure required for City Chic to stand alone. I'm pleased to inform you that we are on track to be fully separated on all of our IT systems well ahead of schedule and within budget. We are already successfully stand-alone on our business operating systems, website and Point Of Sale and are close to completing the few remaining systems and network structures.

I would like to thank all of our team who have gone above and beyond to make this happen, and to the Board for their support of the vision to get to standalone in this time.

Delivering a growth agenda

We are in a strong position to capitalise on the opportunities to grow our business provided they support our core vision of "leading a world of curves".

There are many areas that we see as future growth avenues for City Chic. Our challenge as a management team is to ensure we remain focused and prioritise resources to

initiatives that will leverage our current infrastructure to deliver profitable growth. These opportunities include;

1. Continued growth in Australian online sales by better servicing our customers' needs, increasing the lifestyles and range we offer, and acquiring new customers.
2. Driving further growth in the USA website directly, through focusing on acquisition of new customers and increasing the spend of existing customers through improved customer experience
3. Growing our marketplace business in the USA.
4. Opening new stores. We believe the Australian and NZ markets are not at capacity. We see the rollout of a further 15 to 30 stores over three years provided the retail economics deliver an appropriate return on investment.
5. Increasing the number of larger format stores. We have identified around twenty existing locations in Australia that could be increased in size in the next three years.

FY19 Outlook

Continuing our strong momentum from the second half of FY2018, trading for the 2019 financial year to date has been pleasing. All channels are showing positive growth with online performing strongly. With two of the biggest trading months in November and December still to come, we are on track to achieve high single digit comparable sales growth in the first half of FY2019.

I would like to thank the almost 700 staff at City Chic for their hard work and dedication over the past year. We have an exceptional team here at City Chic and we are delighted to have the chance and resources to realise the brand's full potential.

I look forward to working with Michael Kay as Chair and to the continuation of the Board renewal process.

I would like to thank Ash Hardwick for his huge contribution over six years as a director of Specialty Fashion Group, and for his continued support of a standalone City Chic.

On behalf on the management team I would like thank Anne for her 11 years with us as at SFG. As Chair, she has overseen a period of great change that has led us here today and has resulted in significant value creation for our shareholders.

Many thanks also to our wonderful customers who continue to inspire us all at City Chic.

And finally to you, our shareholders, we thank you for your ongoing support and I look forward to working with you to add value over the coming years.