

city chic collective

20 February 2020

City Chic Collective Limited 1H FY20 Results

Results Highlights

- Sales Revenue of \$104.8m¹ (up 39%) with comparable sales growth of 11.3%²
- Online penetration at 53% of total sales³ (FY19: 44%, 1H FY19: 40%)
- Northern hemisphere now represents 29% of global sales³ (FY19: 20%, 1H FY19 16%)
- Reported PBT from continuing operations of \$16.0m (1H FY19: \$13.9m)
- Underlying EBITDA⁴ of \$19.1m (up 20.8%)
- Normalised operating cash flow of \$17.1m⁵ (1H FY19: \$14.6m)

City Chic Collective Limited (“City Chic”) today released its interim FY20 financial results for the 26 weeks to 29 December 2019. City Chic’s Reported Net Profit After Tax (NPAT) for Continuing Operations was \$10.5m and for the Group⁶ was \$10.6m. Underlying Earnings Before Interest, Taxation and Amortisation (EBITDA) was \$19.1m⁴.

Phil Ryan, Chief Executive Officer and Managing Director of City Chic said:

“The first half saw another strong performance from our global online business, which now represents over half our total sales. We grew our customer base by 130,000 and expanded our product offering for the plus-size market. Across our brands, we produce over seven hundred styles per month and we are focused on leveraging this offering across our channels, segments and regions. It is this capability, and the passion and skills of our team, which provide us with a unique opportunity to scale our business around the world.

The acquisition of plus-size brand Avenue has significantly grown our US customer base and demographic reach, and really plays to our strengths. Avenue delivers on our strategic intent to become a global online retailer in the plus market. We have successfully implemented our customer-centric operating model, lifted the average sell price and rebuilt the stock position. Although I am excited by the continued support for the brand and the business is trading profitably, there is still more work to do. The focus in the second half will be on completing the integration of our supply chain, improving our engagement with the customer and migrating store customers to the online channel.”

¹ Excludes Interest and Other Revenue.

² As announced in 1H FY19 and Full Year FY19 results Investor Presentations, CSG is now calculated excluding marketplace partners, as well as wholesale partners. CSG also excludes Avenue and Hips & Curves.

³ On a 12-month rolling basis.

⁴ Underlying EBITDA excludes costs incurred to execute the acquisition and integration of Avenue of \$1.8m and adjusts for accounting changes relating to AASB16 Leases which were effective from 1 July 2019, in order to present Underlying EBITDA on a like-for-like basis to the prior period. Underlying EBITDA has not been adjusted for the non-cash long term incentive share-based expense of \$1.5m (1H FY19: \$0.2m). A reconciliation of the adjustments made to calculate Underlying EBITDA has been provided in the Investor Presentation lodged today.

⁵ Normalised for the reclassification of rental payments relating to AASB16 (\$7.2m), transaction costs associated with the Avenue acquisition (\$1.8m), outflows associated with the divestment of brands to Noni B and associated tax (\$2.3m), earlier receipting of stock for the US (\$3.0m) and cash collateral paid to factoring companies to secure stock for Avenue (\$2.1m).

⁶ NPAT for Group includes NPAT from Continuing Operations and NPAT from Discontinued Operations.

1H FY20 Results Review

Highlights of the unaudited 1H FY20 results include:

- Revenue up 39% vs. prior corresponding period (pcp) to \$104.8m:
 - Comparable Sales Growth (CSG) of 11.3% (1H FY19: 11.4%)⁷;
 - Strong growth for both City Chic Australasian and US websites;
 - 11 weeks contribution from Avenue.
- Gross Profit margin of 54.2% (1H FY19: 60.4%) was impacted by the material shift in channel mix to online, and the inclusion of Avenue. Despite being the most profitable channel at the earnings line, online has a lower Gross Profit margin due to higher fulfilment costs. Avenue is a lower Gross Profit margin business.
- Notwithstanding the impact of the shift in channel mix, the Gross Profit margin for the stores were maintained.
- Underlying Cost of Doing Business (CODB) reduced to 36.0% of sales from 39.5% vs pcp
 - Greater contribution from the lower CODB online channel including Avenue;
 - Careful management of head office and store costs, with ongoing investment to support growth⁸.
- Underlying EBITDA margin of 18.2% in 1H FY20 is down on prior corresponding period (21.0% in 1H FY19), driven primarily by the first 11 weeks contribution from Avenue and a higher share-based payments expense.
- Normalised operating cash flow of \$17.1m representing strong conversion of earnings to cashflow.

1H FY20 Operational Review

In addition to the acquisition and integration of Avenue, a number of initiatives were successfully executed which have contributed to the ongoing growth of the City Chic brand domestically and internationally. These include:

- Expansion of product offering online and in larger format stores;
- Enhancements to customer experience including the launch of our new global e-commerce platform;
- Established relationships with new US partners including Dillard's and Bare Necessities;
- Opened 7 new standalone stores in Australia and converted 1 store to larger format; 4 closures including 1 pop-up store and 3 stores where more favourable sites were sought.

Avenue Acquisition

On 16 October 2019, City Chic completed the acquisition of the e-commerce assets of Avenue Stores, LLC in the USA for a cash consideration of US\$16.5m. Established more than 30 years ago, Avenue is a US-based specialty retailer of plus-size apparel, targeting value-conscious women aged 35 to 55. Avenue entered into Chapter 11 bankruptcy in August 2019 and subsequently closed its store portfolio, which included over 250 stores across 35 states. As part of the bankruptcy process, Avenue's e-commerce business was acquired by City Chic and included the intellectual property, website and substantial customer database and inventory, while assumed liabilities primarily included gift cards.

⁷ As announced in 1H FY19 and Full Year FY19 results Investor Presentations, CSG is now calculated excluding marketplace partners. The previously reported CSG for 1H FY19 was 9.6%.

⁸ CODB includes \$1.5m of share-based payments expense in 1HFY20 (1HFY19: \$0.2m). Excluding these, CODB as percentage of sales for 1HFY20 was 34.5%.

The acquisition provides City Chic with access to a broader cross-section of the US plus-size market, estimated to be US\$25 billion annually. The transaction met City Chic's strategic objectives of growing its US business through customer acquisition and expanding into new segments within the plus-size market. Whilst the closure of Avenue's physical store network and the bankruptcy have impacted online sales, the acquisition to date has been earnings accretive. City Chic continues to work on increasing the profitability of Avenue's e-commerce assets by applying its leaner operating and customer-centric model, introducing better buying disciplines and adopting a more efficient supply chain.

Financial Position and Dividend

City Chic's net debt position at 29 December 2019 was \$2.6m, representing \$14.9m of cash and \$17.5m of debt⁹. The Avenue acquisition was financed from a debt facility and existing cash.

Subsequent to the half year-end, the Group received a credit approved commitment to refinance the existing \$17.5m facility with a \$35.0m 3-year facility. The refinancing supports the requirements of the expanding business and the global growth plans.

Since the reinstatement of dividends announced in 2018, City Chic has successfully executed and integrated the acquisitions of Avenue and Hips & Curves and set the foundation to continue the push into international markets. In light of the strategic priorities and the various opportunities available to drive global growth, the Board has determined that the best use of capital is to reinvest in the business, and therefore has not declared an interim dividend. The payment of a dividend will be continually reviewed based on the free cashflow generated, capital requirements of the business and the opportunities to invest in growth initiatives.

City Chic is focused on maintaining a strong financial position as the business grows and to ensure any developments in the COVID-19 ("Coronavirus") outbreak can be navigated. City Chic is not directly exposed from a demand perspective and has several levers to help offset any impact of delays in production.

Outlook

In the early part of the second half, City Chic has continued to deliver positive comparable sales growth. City Chic remains on track to achieve positive comparable sales growth for FY20.

Although currently unclear, if disruption to production from the Coronavirus continues, there will be an impact on stock levels and sales for the ANZ operations in the last quarter of FY20, which would impact the level of positive comps achieved for the full year. Chinese Government imposed restrictions have started to be lifted in the regions where a majority of City Chic's factories are located. Some of City Chic's factory base is in the Hubei province, which remains closed. City Chic is working closely with its long-standing supply partners and at this stage the disruption will not impact sales and inventory. City Chic will update the market with any material changes to the situation.

City Chic continues to focus on the execution of various initiatives to drive growth including:

- Reinvigorating the Avenue brand to deliver segment expansion;
- Growing the customer base across plus-size segments and regions;
- Leveraging the product offering across our global customer base;
- Continuing to extend lifestyles and categories;
- Adding new partners in the US, Europe and UK;

⁹ Income tax payable of \$4m relating to FY19 will be paid in 2020. Includes tax related to revenue generating assets sold as part of the divestment on 2 July 2018.

- Build on the trial in Europe and UK;
- Roll-out new stores across Australia and New Zealand (further 15 stores over approximately 2-3 years);
- Converting existing high performing stores to larger format (further 15 conversions over 2-3 years);
- Ongoing investment to enhance customer touchpoints.

Additional Information

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

About City Chic Collective

City Chic Collective is a global omni-channel retailer specialising in plus-size women's apparel, footwear and accessories. It is a collective of customer-led brands including City Chic, Avenue and Hips & Curves. City Chic, including youth oriented CCX, appeals to fashion forward women and its omni-channel model comprises of a network of 107 stores across Australia and New Zealand; multiple websites operating in Australasia and the US; marketplace and wholesale partnerships with major US retailers such as Macys and Nordstrom; and a wholesale business with European and UK partners such as ASOS and Zalando. Avenue targets value-conscious women and Hips & Curves is an intimates brand; both are online only with a significant customer following throughout the US.

The release of this document to the market was authorised by the Board.

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