

ASX Announcement/Media Release

25 January 2013

Specialty Fashion Group Half Year Guidance and Update

Specialty Fashion Group Limited (ASX: SFH) provides guidance for the half year ended 31 December 2012, and an update of its business.

First Half Results Turnaround

Revenue for the half year ended 31 December 2012 was \$311.2 million, 1.3 per cent higher than revenue from the previous corresponding period, reflecting underlying comparable store sales growth of 2.0 per cent in the half year.

Specialty Fashion Group expects earnings before interest, taxation, depreciation and amortisation (EBITDA) for the half year ended 31 December 2012 to be within the range of \$37 million to \$38 million, which compares with EBITDA for the same period in the prior year of \$21.9 million. Consequently net profit for the half year is expected to be in the range of \$17 million to \$18 million, a turnaround from the net profit of \$6.2 million reported for the first half of the prior year. The company has not previously provided profit guidance for the first half of the 2013 financial year.

Gary Perlstein, CEO said: *“Our continued focus on our strategies to improve sales, margins and costs of doing business has meant we have delivered a significant turnaround in trading performance, almost tripling our net profit for the first half of FY2013, when compared with the same period in FY2012. The economic uncertainties and structural changes affecting retail have not gone away, but we have pulled all the levers within our control to achieve sustainable improvements and our results reflect this.”*

High Cash Reserves

Specialty Fashion Group is in a very strong financial position, with net cash of \$45.6 million at 31 December 2012, which compares with net cash of \$6.2 million at 31 December 2011 and is the highest level in seven years. The Group completed the refinance of its debt facility, which comprises a \$40 million working capital facility that matures in December 2015. The Company’s capital expenditure for the first half year was \$6.2 million which compares with \$9.3 million in the same period in the prior year.

Specialty Fashion Group CEO, Gary Perlstein, said: *“Strong operating cash flows and careful investments have meant we have achieved high cash reserves, and further strengthened our balance sheet. In this new retail landscape companies that have financial flexibility to innovate and navigate through the changes that are occurring will have a greater chance of capturing market share. Our financial strength gives us every opportunity to achieve this.”*

Business Improvements Update

The Group is delivering improvements to the business as part of its long-term strategy to be an omni-channel retailer. The improvements in the past half include:

Transformation of Supply Chain: The Group achieved a gross margin of 62.4 per cent in the half, the highest in its history, and an improvement of 477 basis points compared with the first half of the prior year. This result has been achieved from higher selling prices, reduced product cost prices, and reduced freight costs, which are the outcome of the investments made in transforming the company's supply chain to a design and direct sourcing model. The company also reaped the benefits of the decrease in cotton prices as reflected in fabric costs, and a more favourable average USD exchange rate of \$1.01 for the period. The company continues to target margin improvement of at least 150 basis points in the second half of FY2013 in comparison to the same period in the prior year. The Group has extended its hedging program through to the first quarter of FY2014, maintaining an average USD exchange rate of \$1.02 for the period.

Leverage Customer Relationship Management Capabilities: The investments made in a dedicated in-house customer insights team and CRM platform continued to drive results in customer engagement during the period. Email campaign responses increased as more sophisticated customer segmentation was adopted, and were well above industry standards. Email-valid customer members grew from 2.1 million to 2.5 million during the half. The company's total customer membership database comprises more than 7 million members.

Minimising inflation of costs of doing business: The increase in the Group's costs of doing business for the half was limited to \$1.8 million (1.2 per cent) despite underlying annual inflation in wages and rentals being between 3 and 4 per cent. Rental savings were achieved by reducing base rentals of leases renewed and exiting leases of underperforming stores. Changes in store rostering were implemented to contain wage inflation. However, costs in relation to online operations grew by \$2.6 million, to support the growth in this channel.

Online Growth

The Group's online sales grew to \$11.3 million for the half year, or 3.6 per cent of total revenue. Investments made during FY2012 in the e-commerce team, platform and logistics operation enabled this growth. Ongoing growth as well as cost efficiencies are expected, as the brands' online stores leverage the opportunities to attract more customer members to online through targeted marketing, as well as broadening the product range and categories offered through the online stores. Whilst Stylefix.com has built its own customer member base of 550,000, it is the Company's intention to sell Stylefix or integrate it into our existing brand sites which are driving 1.5 million visitors a month. There is more efficiency and leverage broadening the offer from the Group's established brands, and therefore this will be the Group's focus.

Physical Store Portfolio

As planned, the Group's store portfolio was 892 stores at 31 December 2012, following the opening of 9 stores and closure of 10 stores during the half year. The rationalisation of underperforming stores is ongoing, however as vacancies increase the opportunities to open new stores that offer attractive investment returns is increasing. The Company expects to increase the portfolio by approximately net 15 stores in the second half of FY2013.

Conclusion

The estimates contained in this update in relation to the half year ended 31 December 2012 are preliminary in nature, subject to finalisation within the company as well as review by the company's external auditors. Further details will be available with the half year results which are scheduled to be released on 18 February 2013.

ENDS

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About Specialty Fashion Group

Specialty Fashion Group is the largest specialty retailer of women's fashion in Australasia, through Millers, Katies, Crossroads, Autograph, and City Chic. The company operates 892 stores in Australia and New Zealand, and its brands' products are also available online at www.millers.com.au, www.katies.com.au, www.crossroads.com.au, www.autographfashion.com.au, www.citychic.com.au, and in the USA at www.citychiconline.com.