

# city chic collective

27 August 2020

## City Chic Collective Limited FY20 Results

### Results Highlights

- Sales Revenue of \$194.5m<sup>1</sup> (up 31%) with comparable sales growth of 0.4%<sup>2</sup>
- Global customer base growth of 72% to 663k active customers
- Online penetration at 65% of total sales<sup>3</sup> (FY19: 44%)
- Online website growth globally of 113.5% vs FY19
- 42% of global sales are in the northern hemisphere<sup>3</sup> (FY19: 20%), driven by acquisition of Avenue in the United States
- Statutory PBT from continuing operations<sup>4</sup> of \$ 16.7m (FY19: \$19.2m)
- Underlying EBITDA of \$26.5m<sup>5</sup>, representing 6.6% growth vs FY19
- Normalised operating cash flow of \$20.9m (FY19: \$21.5m)
- Strong balance sheet with net cash of \$3.9m<sup>6</sup> at 28 June 2020 and debt facility of \$40.0m; further strengthened with \$111.1m equity capital raise post year end
- Completed acquisition and integration of Avenue in the United States

City Chic Collective Limited (“City Chic”) today released its FY20 financial results for the 52 weeks to 28 June 2020. Phil Ryan, Chief Executive Officer and Managing Director of City Chic said:

“I am pleased with the collective’s performance during a year in which challenges were thrown at our business, our team and our customers, and the wider global community. The drive and commitment of our people has been inspirational and enabled us to deliver another transformational year. We have traded profitably through the disruption caused by COVID-19 and achieved excellent top line growth of over 30%.

“Following the acquisition of Avenue in October 2019, our online channels now represent two-thirds of our global business. In the past twelve months, we have grown our active customer base by 278,000. We also expanded our product offering into the everyday fashion category with Avenue and launched the intimates and playwear brand Fox & Royal, which was developed from our acquired Hips & Curves brand. Our focus is on leveraging our offering across channels and regions as we continue to scale our business globally.

“The acquisition of Avenue has been successfully integrated within our operating structures and supply chain, with trading exceeding our expectations. The success of this acquisition, which was earnings accretive in FY20, provides a blueprint for the potential purchase of the Catherines brand, which targets value-conscious women, but skews to different US states. We will look to implement our lean and customer-centric operating model and leverage our combined US customer base in the world’s largest plus size market.

---

<sup>1</sup> Excludes interest and other revenue

<sup>2</sup> Represents no adjustment for store closures due to COVID-19. Under City Chic’s Comparable Sales Policy, the period stores were closed or partially closed due to COVID-19 restrictions (April and May 2020) are excluded, resulting in comparable sales growth of 6.4% for FY20. In both calculations, comparable sales exclude Wholesale and Online Marketplaces and exclude recent acquisitions of Avenue and Hips & Curves

<sup>3</sup> Only includes part year sales from Avenue since acquisition

<sup>4</sup> Continuing operations exclude profit and loss impact of discontinued operations divested to Noni B in July 2018

<sup>5</sup> Underlying EBITDA excludes transaction and transition costs and US logistics consolidation costs and adjusts for accounting changes relating to *AASB 16 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 includes the non-cash long term incentive share-based expense of \$2.8m in FY20 (\$1.1m in FY19)

<sup>6</sup> Includes deferment of \$4.7m of tax payments agreed with the respective tax authorities, paid in 1H FY21

“In addition to the announcement of the potential acquisition of Catherines in July, we also raised \$111.1m in equity capital to ensure that we are well positioned to accelerate our global growth and further strengthen our balance sheet. This is particularly valuable in the current environment, which we believe will provide other opportunities to further build market share and realise our core strategic objective of leading a world of curves.”

## FY20 Results Review

Highlights of the FY20 results include:

- Sales Revenue up 31.0% vs prior corresponding period (pcp) to \$194.5m
  - Comparable Sales Growth (CSG) of 0.4% (FY19: 12.2%), which increases to 6.4% if store closures and partial closures are excluded
  - Australian and New Zealand (ANZ) sales fell by 4.8%, with sales growth of 9.9% in 1H, followed by a 21.5% fall in 2H driven by the impact of COVID-19 and store closures. ANZ trade improved with re-opening of stores, with sales down 26% vs pcp in June 2020 compared to 47% down vs pcp in April 2020
  - US online websites (City Chic USA, Avenue and Hips and Curves) contributed sales of A\$65.2m in FY20 compared to A\$10.7m in FY19, largely driven by the expanded customer base from the Avenue acquisition (37 weeks contribution)
  - City Chic USA website's strong growth momentum in the 1H slowed and gross margins were heavily impacted in the 2H due to COVID-19 and the drop in demand for City Chic's major dress category in the US
- Gross Profit margin (including logistics costs) of 48.1% (FY19: 57.8%) reflects the material shift in channel mix to online and inclusion of Avenue, as well as the higher levels of discounting through the COVID-19 period
- Underlying Cost of Doing Business (CODB)<sup>7</sup> reduced to 34.4% of sales from 41.3% in pcp, driven by a greater contribution from the lower CODB online channel including Avenue, as well as prudent management of head office and store costs. Underlying CODB excluding share-based payments expense was 33.0% of sales in FY20 vs 40.9% in FY19
- Statutory Net Profit After Tax (NPAT) for Continuing Operations was \$9.2m (FY19: \$14.3m) and NPAT for Continuing and Discontinued Operations was \$9.7m (FY19: \$16.0m). Tax expense includes derecognition of a deferred tax asset relating to US state corporation tax losses in the state of California, due to exit of warehouse facility
- Underlying EBITDA margin of 13.6% in FY20 (16.8% in FY19) impacted by a lower contribution margin of stores in the 2H and a higher share-based payments expense
- Normalised operating cash flow of \$20.9m representing strong conversion of earnings to cashflow.

## FY20 Operational Review

FY20 was another transformational year for City Chic with the successful acquisition and integration of Avenue. Other operational achievements include:

- Enhanced customer experience with launch of new global eCommerce platform and new Customer Relationship Management (CRM) system
- Expanded online product offering including launch of Fox & Royal
- Consolidated the US warehouse and logistics solution during lower activity levels due to COVID-19. One warehouse in Dallas will drive cost efficiencies and enable cross-selling across the entire US customer base
- Navigated impact of COVID-19 on team members and customers, managed cash flow and inventory, and traded the business profitably.

---

<sup>7</sup> CODB represents all costs after gross profit and before EBITDA. In FY20 includes \$2.8m share-based payments expense (FY19: \$1.1m)

## COVID-19 Update

On 19 March 2020, City Chic flagged that the ongoing spread of COVID-19 and the escalation of government containment measures globally were impacting consumer spending and sales. On 27 March 2020, City Chic announced the temporary closure of ANZ stores and the implementation of various cost reduction and working capital management initiatives.

On 25 May 2020, City Chic advised of a staged reopening of stores and profitable trading during store closures driven by 57% growth in ANZ online sales and a resilient Avenue customer base. On 15 June 2020, City Chic finalised negotiations with landlords on reduced rents during store closures and market appropriate go-forward rents. As part of the process, City Chic decided to close 14 holdover stores where it was unable to reach agreement on appropriate post COVID-19 rents.

In early July, the Victorian State Government reinstated restrictions in relation to COVID-19 in metropolitan Melbourne. To protect the health and safety of the team and customers, City Chic temporarily closed 20 stores in Melbourne. In early August, following the escalation of the spread of COVID-19 in Victoria, the remaining four stores in regional Victoria were also temporarily closed.

In mid-August 2020, an increase in the number of COVID-19 cases resulted in the New Zealand government imposing restrictions in Auckland. City Chic has temporarily closed its four stores in Auckland.

The rest of the store portfolio in ANZ remain open and traded strongly in July and August. City Chic's online channel continues to operate without disruption in all geographies. The health and safety of the team and customers, as well as the guidelines provided by respective governments will drive any decision on reopening of stores.

As previously announced on 25 May 2020, City Chic is eligible for the JobKeeper payment subsidy in Australia and Wage Subsidy Scheme in New Zealand. JobKeeper and Wage Subsidies totalled A\$3.9m for FY20, which was paid in its entirety to team members. The majority of the payments to team members represented the period stores were closed and top-up amounts above actual hours worked. Based on recent sales performance in Australia, City Chic does not currently expect to be eligible for the JobKeeper extension from October 2020 onwards.

## Equity Capital Raise and Potential Catherines Acquisition

On 23 July 2020, City Chic was selected as the Stalking Horse Bidder and signed an asset purchase agreement for the eCommerce assets of Catherines, which is owned by US-listed Ascena Retail Group Inc. (NASDAQ: ASNA), and are being auctioned as part of a Chapter 11 bankruptcy process. These assets include a well-established brand with a loyal customer following and inventory. City Chic's Stalking Horse Bid includes an upfront cash consideration offer of US\$16.0m, subject to an inventory adjustment.

Established in 1960, Catherines is a well-recognised US-based specialty retailer of plus-size apparel, targeting mature value-conscious women. Catherines has a significant and loyal online customer base and generated online sales revenue of US\$67m in the 12 months to April 2020, which represents approximately one-third of Catherines total sales. City Chic expects a material reduction in eCommerce sales from the closure of Catherines store network (300 stores) as well as from the bankruptcy process, but expects Catherines to be earnings accretive its first year of operations.

As Stalking Horse Bidder, City Chic has entered into a binding asset purchase agreement that is subject to conditions precedent, including City Chic being the highest bidder at the auction and approval by a US Bankruptcy Court. There is therefore no guarantee that City Chic will be successful in its bid to acquire the Catherines eCommerce assets. Furthermore, the auction process may result in the purchase price being higher, meaning that City Chic may need to bid higher than its Stalking Horse Bid of US\$16.0m to attain the assets. If City Chic is the successful acquirer, the expected date of completion would be late September or early fourth quarter of 2020.

On 24 July 2020, City Chic completed a fully underwritten \$80.0m Placement of new fully paid ordinary shares to eligible professional and sophisticated institutional investors. The Placement was conducted at \$3.05 per share, resulting in 26.2 million new shares being issued, which represented 13.1% of City Chic's issued capital at the time of the Placement. New shares issued under the Placement settled on 30 July 2020 and commenced trading on 31 July 2020.

Following the completion of the Placement, City Chic offered all eligible shareholders the opportunity to participate in a non-underwritten Share Purchase Plan (SPP). City Chic raised \$31.1m through the SPP, which closed on 18 August 2020. The SPP was conducted at \$3.05 per share, resulting in 10.2 million new shares being issued. The Placement and SPP together raised \$111.1m and resulted in 36.4 million new shares being issued.

### **Financial Position and Dividend**

City Chic's net cash position at 28 June 2020 was \$3.9m, representing \$21.4m of cash and \$17.5m of debt. City Chic's cash position at 24 August 2020 is \$112.3m with no debt drawn under the existing \$40m debt facility which matures in February 2023. Since financial year end, City Chic:

- Received proceeds from the Placement of \$77.5m (net of fees)
- Received proceeds from the SPP of \$31.1m
- Repaid debt of \$17.5m
- Paid deferred tax payments of \$4.7m
- Paid deposit of US\$1.6m on signing asset purchase agreement for Catherines.

In light of the strategic priorities and the various opportunities available to drive global growth, as well as the current uncertainty caused by the impact of COVID-19, the Board has decided not to declare a final dividend. The decision to pay a dividend will be continually reviewed based on the free cashflow generated and capital requirements of the business, as well as any opportunities to invest in growth initiatives.

### **Payroll Audit**

As announced on 24 July 2020, the directors of City Chic commissioned an external audit of City Chic's payroll systems. The purpose of the external audit of payment data and processes across City Chic's businesses was to ensure that these processes are operating in accordance with City Chic's expectations and to allow any anomalies that may exist to be promptly identified and resolved. The directors are pleased to advise that no material issues were identified.

## Outlook

In the early part of FY21, City Chic is pleased to advise that the company has continued to deliver positive comparable sales growth and the Avenue customer base in the US continues to be resilient. However, City Chic acknowledges the economic impact caused by COVID-19 globally and the uncertain outlook for consumer demand.

The company is very well capitalised and remains focused on the execution of various growth initiatives including:

- Potential acquisition and integration of the Catherines brand
- Improve engagement with, and experience of, the Avenue customer base, and migrate store customers to the online channel
- Ongoing review of the store portfolio with roll-out of new stores and conversion to larger format stores, where store economics are appropriate
- Continuing expansion of lifestyles and categories online
- Expand into Everyday Fashion product stream in southern hemisphere
- Customer acquisition and driving brand awareness in the northern hemisphere, including adding new partners and building on trial in UK and Europe
- Ongoing investment to enhance customer touchpoints.

Current market conditions are favourable to explore opportunities to expand the global customer base. City Chic believes it is well positioned to leverage its lean, customer-centric operating model to drive scale as it continues to grow its global online footprint.

## 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, CCX, Hips & Curves and Fox & Royal. City Chic, including youth oriented CCX, appeals to fashion forward women and its omni-channel model comprises of a network of 93 stores across Australia and New Zealand (ANZ); websites operating in ANZ 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 with a long history and significant online customer following in the US. Hips & Curves and Fox & Royal are online intimates brands in the US and ANZ respectively.

The release of this announcement was approved by the Board.

## Investor Enquiries

Munraj Dhaliwal +61 (2) 9059 4343  
Chief Financial Officer

## Media Enquiries

Matthew Gregorowski +61 (2) 8234 0105  
Françoise Dixon +61 (2) 8234 0112  
Citadel-MAGNUS