Accent Group LIMITED

ACCENT GROUP ANNOUNCES RECORD HALF-YEAR PROFIT

23 February 2018

FINANCIAL HIGHLIGHTS

- **Underlying[1] consolidated Earnings Before Interest Tax and Depreciation (EBITDA) of $50.0 million for the half-year ended 31 December 2017, an increase of 16.5%[2] on the prior year**
- **Underlying Net Profit After Tax (NPAT) of $26.3 million, an increase of 13.0%[2] on the prior year**
- **Underlying diluted Earnings Per Share (EPS) of 4.94 cents, an increase of 12.1%[2] on the prior year**
- **A fully franked interim dividend of 3.0 cents per share**
- **Underlying Group Sales of $350.3m up 16.5%[2] including online sales up 170%**

Accent Group Limited (ASX: AX1) today announced a record half-year profit for the six months ended 31 December 2017, with underlying Net Profit After Tax rising 13.0% to $26.3 million.

Underlying Earnings Before Interest Tax and Depreciation rose 16.5% to $50.0 million, with underlying diluted Earnings Per Share increasing 12.1% to 4.94 cents.

Due to movements in the retail calendar, the first week of post-Christmas sales (week commencing 25th December 2017) which is a key trading week is included in the H1 FY18 (half year ended 31st December 2017) result. In FY17 this post-Christmas week was reported in the second half. On a year to date basis, by the end of January this trading week is also included in the last year numbers with underlying (unaudited) EBIDTA as at the end of January up 12% on prior year.

Co-CEO of Accent Group, Daniel Agostinelli said, "We are very pleased with the record results that the group has delivered in the first half and the progress we continue to make against our plan. The integration of the combined business is now complete and has been reflected in the changing of the group name from RCG Corporation to Accent Group Limited. With the distribution rights to 10 international brands and over 445 stores across 10 retail banners, Accent Group is the region's leading, vertically integrated multi-channel retailer and distributor of performance and lifestyle footwear."

[1] Unless otherwise stated all 1H18 results and references to growth are based on 1H18 underlying results and proforma underlying 1H17 results. The pro-forma underlying results for the half-year to 25 December 16 include the sales, gross profit and EBITDA for Hype DC for the full period including the period prior to completion (1/7/16 – 3/8/16). 1H17 proforma sales of 300.6m include $10.7m of sales for the Hype business, reported sales for the period were $289.9m. Refer to the Accent Group Limited 1H18 investor presentation Appendix for reconciliations between underlying and statutory reported results.

[2] Refer Paragraph 3. FY17 was 53 weeks, with H117 of 26 weeks and 2H17 of 27 weeks. FY18 is a standard 52 week financial year with 26 weeks in each half. Due to trading patterns we do not expect any material impact to profit in 2H18 as a result of having only 26 weeks. Unless otherwise stated this note applies to all financials in this release.

"Now the integration is complete we will continue to put in place a range of valuable initiatives to further grow our business and implement innovations that will boost many areas of our business in 2018 and beyond", added Mr Agostinelli

Financial overview

Underlying Financials ($m)	Half-year to 31st Dec 2017	Pro-forma[3] - Half-year to 25 Dec 2016	Var.
Group Sales (company owned)	**350.3**	300.6	**Up 16.5%**
Like for Like retail sales[4]	**1%**	3.0%	
Gross Profit %	**54.5%**	53.7%	**Up 0.8%**
EBITDA	**50.0**	42.9	**Up 16.5%**
NPAT	**26.3**	23.3	**13.0%**

Retail

Company owned retail sales grew strongly to $295.1 million, which was 21% up on the prior year. This was driven by strong growth in online sales of 170% and new store rollouts. Like-for-like (LFL) retail sales for the first half of FY18 grew by 1%[4] for the relevant comparative period. The business delayed the timing of the half-yearly clearance sale in December for most of its banners in order to maximise full margin sales in the lead-up to Christmas. Whilst this strategy was expected to and did impact LFL and total retail sales, it contributed strongly to an improved gross profit outcome for the half.

The group opened 22 new stores and closed 7 stores during the first half of FY18, with a further 10 new stores planned to be opened during the balance of the financial year. The planned openings include the expansion of the Hype business to New Zealand, with stores in Auckland and Wellington.

Mr Agostinelli said "We continue to invest in our store network, evolving our store environments to ensure a leading-edge customer experience. The industrywide fall in centre traffic has been well publicised and while we continue to get sustainable rent outcomes for the vast majority of store renewal negotiations, it is our intent to continue to close stores where landlords are unwilling to agree to acceptable occupancy renewal outcomes."

In the retail banners, Platypus and Skechers traded in line with expectations, with stronger gross margins in the lead-up to Christmas. Performance in Hype DC is now also well ahead of last year. The new team is in place and driving current and future growth through improved planning, buying, store presentation and retail operations. Vans continued its strong performance, driven by significant growth in the classic Old Skool sneaker and the market trend to board culture.

Sales in The Athletes Foot (TAF) business were below expectations for the half. However, with the continued roll-out out of the new performance store format, on-boarding of the decentralised

[3] Underlying proforma results (refer to note 1 on page 1).
[4] Includes The Athlete's Foot franchise store sales

eCommerce platform to be rolled out before the end of March and some key personnel changes, the business is confident that performance will improve in the second half of the financial year.

Mr Agostinelli said “We are very pleased with the results of our retail business and are confident that we have the right strategies, teams, and resources in place for each of our banners to capitalise on the opportunities and meet the challenges that lie ahead.”

Omnichannel

Total digital sales including click-and-collect and click-and-dispatch, grew 170% during H1 FY18. During the half, a number of new initiatives were implemented, including 3 new eCommerce sites for Timberland, Platypus New Zealand and Skechers New Zealand, the launch of click-and-collect and click-and-dispatch in Platypus and Hype and the roll-out of Afterpay instore for all retail banners.

Mr Agostinelli said “Digital sales continued to grow strongly and beyond expectations, combining 445 stores across Australia and New Zealand with 10 ecommerce sites. Accent Group is now a true omnichannel retailer with a network of stores that allows us to fully merge the digital and bricks and mortar channels to deliver seamless, unrivalled consumer experiences through click-and-collect, click-and-dispatch, endless aisle and three-hour delivery.”

“We have been planning this strategy for several years and believe we have the platforms to take our businesses to the next level of growth and continue to out-perform others in our sector in both Australia and New Zealand”, he added.

Wholesale

Wholesale sales for the half of $55.1 million were in line with expectations. While sales were 2.5% below prior year, gross profit margins and profit were up on the prior year as a result of cleaner inventories and better exchange rates. Accent continues to drive the growth of its exclusive brands through its vertical channels and key retail partners. Dr Martens, Vans, and CAT all grew strongly supported by new product innovation and industry trends.

The business has also successfully concluded a further three-year agreement with VF Corporation for the Vans distribution licence.

Management & Board Changes

Having completed the successful acquisitions of both the Accent and Hype business and completion of the integration of those businesses with RCG, Co-CEO Mr Hilton Brett today announced his retirement from the company, effective 31 March 2018.

Mr Brett said “I am very proud of the goals that we have achieved and the 22% compound annual returns that the business has delivered to shareholders over the last 11 years. Now that the business has completed its transformation from an investment holding company into the regional leader in the retail and distribution of performance and lifestyle footwear and with its headquarters now in Melbourne, it is the right time for Daniel to take over as sole CEO.

Daniel is an outstanding retailer and leader and I have no doubt that the company will continue to go from strength to strength under his leadership.”

The Accent Group Chairman, Mr David Gordon said “On behalf of the board, management team, and shareholders, I would like to thank Hilton for the role he has played leading the team and transforming the group into a world class performance and lifestyle footwear business. We wish him every success for his future.”

Continuing the Board transformation process that commenced last year, Danny Gilbert, (Co-founder Hype DC) and Craig Thompson, (Co-founder Accent) have both announced their retirement from the board, effective 31 March 2018.

The board and management wish to thank both Craig and Danny for their vision and support in growing the business to the success it has become.

Dividends

Accent Group has announced that it will pay a fully franked ordinary interim dividend of 3.0 cents per share, payable on 22 March, 2018 to shareholders registered on 2 March, 2018. The company continues to expect its dividend payout ratio to be between 75%-80% of underlying earnings per share for FY2018.

Outlook

Like for like sales retail sales for the first 7 weeks of the second-half are up 4%, an improvement on the LFL performance in the first half. The unaudited, underlying EBITDA for the first seven months of the year, which is a comparable period was up 12% and was ahead of plan. Whilst the results to-date support our expectations for another year of profit growth the macro conditions and consumer environment remain volatile.

Mr Agostinelli concluded “We are pleased about the positive start to FY18 year, in particular the continued progress in omnichannel, strong online growth and improved performance in the Hype DC banner. The business is well positioned to defend against new market entrants and capitalise on the growth opportunities moving forward.

“It is our intent moving forward to avoid lazy, discount-fuelled retailing, but instead to drive profitable sustainable sales and margin growth through our world class omnichannel offering, best in class websites and fulfilment infrastructure, exciting store environments and the magic of our in-store customer experience. The Accent Group continues to be defined by strong cash conversion and the exceptional returns it delivers on shareholders’ funds.

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Investor Conference Call:
An investor conference call will be held at 10:30am (AEDST) on 23 February 2018. Dial in details are as follows:

- Australian Toll-Free: 1800 685 494
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