RCG ANNOUNCES ACQUISITION OF ACCENT GROUP AND CAPITAL RAISING

19 March 2015

RCG Corporation today announced:

- **it has entered into an agreement to acquire Accent Group Limited[1], owner of Platypus shoes and distributor and retailer of seven international brands including Vans, Skechers, Dr Martens and Timberland, for 6 times normalised FY2015 EBITDA**
- **the purchase price is expected to be between $180 million - $200 million**
- **the transaction is expected to be materially EBITDA and EPS accretive in FY16**
- **three of the four shareholders of Accent Group will, subject to shareholder approval, be joining the RCG board**
- **a $25 million fully underwritten placement to sophisticated and professional investors at 70 cents per share**
- **a $100 million placement to AGL shareholders at 70 cents per share**
- **existing RCG shareholders will each have the opportunity to acquire up to $15,000 of additional shares at no more than 70 cents per share**

RCG Corporation Limited (ASX: RCG) today announced that it has entered into an agreement to acquire 100% of the shares in Accent Group Limited ("AGL")[1], a New Zealand company with operating subsidiaries in Australia and New Zealand, for six times normalised EBITDA for AGL's financial year ending 30 April 2015. The purchase price is expected to be in the range of $180 million to $200 million.

About AGL

AGL is an importer, wholesaler and retailer of international footwear brands and related accessories. For the 12 months to the end of December 2014, AGL generated over $62 million of external wholesale sales through its exclusive distribution of the Vans, Skechers, Dr Martens, Timberland, Stance, K Swiss, Stance and Palladium brands primarily in Australia and New Zealand.

The business also operates 97 stores, including mono-branded Skechers, Vans and Timberland stores, as well as the market-leading multi-branded sneaker business, Platypus Shoes. Its retail sales for the 12 months ended December 2014 were approximately $120 million.

Impact of the transaction on RCG

As a combined entity, for the 12 months to 31 December 2014, earnings before interest, tax, depreciation and amortisation (EBITDA) would have increased approximately 150% from $17.6

[1] Certain elements of the transaction are subject to shareholder approval

million to $44.1 million, and earnings per share would have increased approximately 26% from 4.8 cents to 6.0 cents on a pro-forma historical basis[2]. The combined entity would also have had:

- 269 stores (RCG standalone: 174 stores)
- 13 brand licences (RCG standalone: 6 brand licences)
- Total group sales of $450 million, including franchise store sales (RCG standalone: $267.7 million)
- Net profit after tax of $26.3 million (RCG standalone: $12.3 million)
- Net gearing of 0.7 times (RCG standalone: nil)

The Board of RCG believes that the transaction will be materially earnings per share and EBITDA accretive in the first full financial year, prior to any acquisition related amortisation, synergies and integration costs.

RCG CEO, Mr Hilton Brett said, "AGL is a significant and growing business. It will dramatically increase the scale and financial outcomes of RCG, standing the business in even better stead to face the challenges ahead."

Strategic rationale

The Board of RCG believes that the acquisition of AGL is highly strategic for a number of reasons. These include but are not limited to:

- **Earnings accretion** – Significant earnings accretion as described above.
- **Natural alignment** – The acquisition is closely aligned with RCG's stated growth strategy. Moreover, the businesses are similar in many ways, making them easy to integrate and operate.
- **Portfolio diversification** – By more than doubling both the number of brands RCG distributes and the number of retail formats it operates, RCG will significantly diversify the risk associated with reliance on any one brand or retail concept.
- **Growth engine for RCG** – AGL's businesses, particularly Platypus and Skechers, have experienced significant sales and profit growth over the last two years. Growth, both from existing stores and wholesale customers, and from the establishment of new stores, is expected to continue.
- **Creation of market leader in branded footwear** – With over 270 stores and exclusive distribution rights for 13 brands, RCG will become a regional leader in the retail and distribution of branded footwear.
- **Opportunities of scale** – With a business more than double the size of its existing business, RCG will have greater flexibility and scale to explore both new revenue opportunities and potential cost-saving and efficiency improvements.
- **Cross-branded distribution opportunities** – The businesses already retail some of each other's brands on a relatively small scale. Under single ownership, further cross-branded distribution opportunities will be more fully explored to the mutual benefit of the brands, retail stores, franchisees and consumers.
- **Enhanced vertical strategy** – Both RCG and AGL have been pursuing a vertical distribution / retail strategy for some time. The Board believes that the merged entity will be in a position

[2] Based on the unaudited pro-forma consolidated historical numbers for the 12 months ended 31 December 2014, adjusted for the expected changes in finance costs, but excluding any acquisition related amortisation, synergies or integration costs.

to accelerate the rollout of this strategy which will be more likely to bring greater certainty both for the brands it distributes and the retail channels it supports.

- **New retail formats –** With the combined stable of brands, existing retail network and management expertise, new retail formats will be easier to develop and rollout.

Mr Brett said, “RCG’s stated strategy is to identify and acquire brands and/or businesses which are synergistic with its existing business. In particular, the company’s strategy is to acquire distribution and retail businesses in the footwear and active lifestyle space. There are few, if any, businesses that meet this brief better than AGL. The strategic benefits and opportunities that this acquisition are likely to bring are extremely exciting.”

Transaction metrics and funding

RCG will acquire 100% of the shares in AGL for six times normalised maintainable EBITDA for AGL’s financial year ending on 30 April 2015. The purchase price will be subject to normal working capital and net debt adjustments.

Based on an anticipated EBITDA range of $30 million to $33 million, RCG expects the purchase price to be between $180 million and $200 million. The purchase price is to be funded as follows:

- $25 million fully underwritten placement to professional and sophisticated investors
- $100 million placement to the AGL shareholders which will be subject to voluntary escrow for two years from completion (no one shareholder will own more than 17% of RCG’s shares)
- $25 million unsecured vendor note
- Up to $50 million by way of secured senior bank debt from National Australia Bank

The shares to be issued both to the vendors and under the private placement will be issued at $0.70. This represents a discount of approximately 3.4% to the volume weighted average price of RCG’s shares for the five days prior to this announcement.

RCG has entered into a binding commitment letter with National Australia Bank (“NAB”) whereby NAB has agreed (subject to the satisfaction of certain conditions precedent) to advance RCG up to $50 million to partially fund the purchase of AGL. Based on the estimated final purchase price range, bank funding for the transaction will be in the range of $30 million - $48 million, which is less than one times the EBITDA of the combined entity.

Share Purchase Plan

Following completion of the transaction, RCG shareholders will be given the opportunity to subscribe for shares at no more than 70 cents under a share purchase plan. Under the terms of the share purchase plan, shareholders registered at 7:00pm (Sydney time) on 18 March 2015 will be entitled to subscribe for up to $15,000 of RCG shares to raise up to a maximum of $10 million (subject to RCG’s discretion to accept oversubscriptions and scale back applications). Further details of the share purchase plan will be provided to shareholders in due course.

Board and management composition

It is envisaged that no changes will be made to the existing operating structure of either RCG or AGL in the short term and until such time as the combined management team is confident that any proposed changes will have corresponding benefits. The existing RCG Board will be augmented by the addition of three of the existing AGL shareholders: Michael Hapgood (Executive Chairman), Daniel Agostinelli (AGL CEO) and Craig Thompson (Non-Executive Director). Hilton Brett will remain as RCG CEO and Ivan Hammerschlag will continue as RCG Non-Executive Chairman.

"Michael, Daniel and Craig bring a wealth of knowledge and a long track record of success to the business and will provide an exciting new perspective to the RCG board," said Mr Brett.

Timetable

The following is an indicative timetable of the transaction[3]:

Event	Date
Record date for RCG shareholders to participate in the share purchase plan	18 March 2015
Trading halt, transaction announcement and placement:	
▪ Transaction announcement and trading halt request	19 March 2015, before 10:00am
▪ Bookbuild opens	19 March 2015 at 10:00am
▪ Bookbuild closes	20 March 2015 at 2:00pm
▪ Trading halt lifted	23 March 2015
▪ Settlement of placement	27 March 2015
▪ Placement shares allotted and commence trading	30 March 2015
Notice of EGM dispatched to shareholders together with the Independent Expert's Report	10 April 2015
RCG shareholder meeting	12 May 2015
Effective date of acquisition of AGL[4]	1 May 2015
Expected completion of acquisition of AGL	26 May 2015
Share purchase plan offer to open	29 May 2015
Share purchase plan offer to close	26 June 2015

Conditions and Extraordinary General Meeting

The transaction is subject to conditions precedent, including:

- **Shareholder Approval**: RCG shareholders approving:
  - the issue of shares to the AGL vendors under ASX Listing Rule 7.1;
  - the appointment of Michael Hapgood, Craig Thompson and Daniel Agostinelli as directors of RCG;
  - the granting of financial assistance by RCG, AGL and their subsidiaries;
- **Consents from government agencies**: RCG obtaining necessary approvals from ASIC to enter into the proposed escrow deeds with the AGL vendors; and
- **Key third party consents**: RCG and AGL receiving consent from various prescribed key third parties on terms acceptable to them (acting reasonably).

[3] The timetable is subject to change in RCG's absolute discretion. RCG reserves the right to withdraw or vary the timetable without notice subject to the Corporations Act 2001 (Cth), the ASX Listing Rules and other applicable laws. In particular, RCG reserves the right to extend the closing date for the share purchase plan, to accept late applications either generally, or in particular cases, to withdraw the share purchase plan without prior notice.

[4] Completion of the transaction is expected to take place on 27 May 2015. However, subject to completion of the transaction, RCG will acquire the business with an effective date of 1 May 2015, meaning that RCG will consolidate AGL's results for the last two months of its financial year.

- **Director recommendations**: No director of RCG having withdrawn or adversely modified their recommendation of the transaction or having made any public statement that they no longer recommend that RCG's shareholders vote in favour of the resolution to approve the transaction.

A Notice of Extraordinary General Meeting and accompanying Explanatory Memorandum will be despatched to shareholders around 10 April 2015. RCG has commissioned Lonergan Edwards and Associates Limited to opine on whether the transaction is in the best interests of shareholders. The Independent Expert's Report will accompany the Notice of Extraordinary General Meeting.

Additional information

An investor presentation, which explains the transaction, its risks and conditions in more detail, has been lodged with ASX. Any person considering an investment in RCG should read that presentation and seek his or her own independent advice before making any decision in this regard.

Further information

RCG & corporate:	Hilton Brett, RCG CEO | (02) 8310 000 / hbrett@rcgcorp.com.au
Media enquiries:	Tim Allerton, City Public Relations | (02) 9267 4511
Legal advisors:	Arnold Bloch Leibler | Jeremy Leibler (03) 9229-9744
Corporates advisors:	Luminis Partners | Ron Malek 0411 422 885 | Jamie Garis 0412 581 917
Underwriters:	Nathan Keevers, Bell Potter Securities Limited | (02) 8224 2865

Important information

This announcement contains summary information about RCG and AGL which is current as at the date of this announcement. The information in this announcement is of a general nature and does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in RCG or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act 2001 (Cth). No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this announcement. To the maximum extent permitted by law, RCG and its affiliates and related bodies corporate, and their respective officers, directors, employees and agents disclaim any liability (including, without limitation, any liability arising from fault or negligence for any loss arising from any use of this presentation (or its content) or otherwise arising in connection with it).

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