



RCG ANNOUNCES ACQUISITION OF HYPE DC

4 July 2016

RCG Corporation today announced:

- **It has entered into a binding agreement¹ to acquire 100% of the shares in Hype DC Pty Limited, an Australian retailer of branded athleisure and style footwear for 6 times normalised FY2016 EBITDA**
- **The purchase price is expected to be approximately \$105 million**
- **The transaction is expected to be materially EBITDA and EPS accretive in FY17**
- **That it expects FY16 underlying EBITDA to be c. \$60 million, which is at the top-end of its guidance range**
- **That, following the acquisition of Hype DC, it is targeting annualised FY17 underlying EBITDA of \$90 million**

RCG Corporation Limited (ASX: RCG) today announced that it has entered into an agreement to acquire 100% of the shares in Hype DC Pty Ltd ("Hype")¹, an Australian retailer of branded athleisure and style footwear with sixty stores across the country, for six times normalised EBITDA for Hype's financial year ending 30 June 2016. The purchase price is expected to be approximately \$105 million.

About Hype

Hype operates 57 Hype DC and 3 Shubar retail stores across Australia, predominantly in metro and major regional locations. In addition, Hype operates a substantial and growing fully-integrated online retail business under both the Hype DC and Shubar banners. Group sales for the 2016 financial year were approximately \$120 million.

Hype DC is a retailer of premium, exclusive and limited edition sneakers, curated from the world's leading brands. In addition, Hype DC carries a focussed range of premium fashion footwear, predominantly in the vertically owned Shubar brand.

The mono-branded Shubar stores carry the full range of men's and women's Shubar shoes, boots and sandals as well as a tight range of other premium brands (including several of RCG group's brands). Shubar's mission is to uncover global trends and make them accessible to the fashion conscious individual.

¹ Subject to the satisfaction or waiver of a number of conditions.

Impact of the transaction on RCG

As a combined entity for the financial year to June 2016, underlying earnings before interest, tax, depreciation and amortisation (EBITDA) would have increased approximately 30% from \$60.0 million to \$77.5 million, and underlying earnings per share would have increased approximately 16% on a pro-forma historical basis².

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.

Strategic rationale

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

- **Earnings accretion** – Significant earnings accretion as described above.
- **Portfolio diversification** – With over 350 stores representing nine distinct retail offerings and exclusive distribution rights for 12 brands, RCG's position as a regional leader in the retail and distribution of branded footwear will be enhanced.
- **Opportunities of scale** – With another 60 stores, RCG will have greater flexibility and scale to explore both new revenue opportunities and potential cost-saving and efficiency improvements.
- **Enhanced vertical strategy** – Both Hype and Shubar are prime channels for a number of brands distributed by the combined RCG / Accent business. The Board believes that the acquisition will enable the group 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.
- **Complementary management skills** – Hype has an outstanding and experienced senior management team with a proven track record of delivering exceptional results that will complement and strengthen the group's management team.

Transaction metrics and funding

RCG will acquire 100% of the shares in Hype for six times normalised maintainable EBITDA for Hype's financial year ending on 30 June 2016. The purchase price will be subject to normal working capital and net debt adjustments.

² These calculations are based on unaudited pro-forma consolidated numbers for the 12 months ending 30 June 2016, using the top-end of RCG's market guidance range and the mid-point of Hype's expected profit range, adjusted for the expected change in finance costs, but excluding any acquisition related amortisation, synergies or integration costs.

Based on an anticipated EBITDA of approximately \$17.5 million, RCG expects the purchase price to be approximately \$105 million. The purchase price is to be funded as follows:

- \$52.5 million by way of a RCG share placement to the Hype shareholders which will be subject to voluntary escrow for two years from completion (no one Hype shareholder will own more than 5% of RCG's shares)
- \$13.1 million by way of an unsecured vendor note
- \$39.4 million by way of a combination of secured senior bank debt from National Australia Bank ("NAB") and cash

The shares to be issued to the vendors will be issued at \$1.425, which is equivalent to \$1.50 (the price at which RCG raised capital earlier in the year) less a 5% discount.

RCG has entered into a binding agreement with NAB whereby NAB has agreed (subject to the satisfaction of certain conditions precedent) to advance RCG \$27 million in senior debt financing to part fund the purchase of Hype.

Following completion of this transaction, the group will have drawn senior debt of \$77m, which is approximately 1 x pro-forma FY16 EBITDA of the combined group.

Board and management composition

It is envisaged that no changes will be made to the existing operating structure of either the existing RCG businesses or Hype in the short term and until such time as the combined management team is confident that any proposed changes will have corresponding benefits. Danny and Cindy Gilbert, who founded Hype, will continue to manage the business on a day-to-day basis in their capacity as Joint CEO of Hype and Danny Gilbert will join the RCG Board as an executive director.

Timetable

The following is an indicative timetable of the transaction:

Event	Date
Transaction announcement	4 July 2016
Expected Completion of the acquisition of Hype	2 August 2016
RCG's 2016 Annual general Meeting	25 November 2016

Approvals, consents and conditions

Completion of the transaction is subject to a number of approvals, consents and conditions precedent.

Key conditions precedent to the acquisition of Hype include:

- The RCG Board appointing Danny Gilbert as a director of RCG; and
- RCG and the Hype vendors receiving consent from landlords of certain key leases.

RCG will seek shareholder approval pursuant to section 260B of the Corporations Act 2001 (Cth) at its 2016 Annual General Meeting with respect to the financial assistance being provided in connection with the Transaction. If shareholders do not approve this resolution, there will be an event of default under the NAB senior facility. The RCG Board will recommend that shareholders vote in favour of this resolution, and the directors intend to vote their shares in favour of this resolution.

RCG and the Hype vendors each have the right to terminate the share sale and purchase deed prior to completion if the other party fails to comply with any of its material terms (including a breach of warranty).

Hype conclusion

RCG CEO, Hilton Brett, said “Hype is an outstanding business that is perfectly aligned to RCG’s strategic objectives. Bringing Hype into the RCG family will unlock enormous benefits and opportunities for all the stakeholders of both businesses including staff, suppliers, customers and RCG shareholders.”

“Danny and Cindy Gilbert together with the rest of the Hype management team have proven themselves to be consummate retailers and we are delighted to welcome them to the group. We look very forward to working with them as we continue to break new ground in the distribution and retail of branded footwear in the Australian and New Zealand markets.”

Trading update

For the financial year ended 26 June 2016, RCG expects to deliver underlying EBITDA of approximately \$60 million, which is at the top end of its guidance range.

Key trading metrics for the financial year are as follows:

- The Athlete's Foot - Delivered like-for-like sales growth of 3.5%
- Accent Group
 - Delivered like-for-like retail sales growth of 20%
 - Opened 29 stores, taking the total number of stores to 138
 - Delivered wholesale sales growth of 13%
- RCG Brands
 - Delivered like-for-like retail sales growth of 7%
 - Delivered wholesale sales growth of 4%

FY17 Guidance

RCG is targeting underlying group EBITDA of \$90 million³ in FY17, based on the following assumptions:

- The Athlete's Foot - Like-for-like sales growth of 4%
- Accent Group
 - Like-for-like retail sales growth of 7%
 - 30 new stores
 - Wholesale sales to be in line with FY16
 - Gross profit margins to improve by 2% - 3% as a consequence of the retail proportion of total sales growing
- RCG Brands
 - Like-for-like retail sales growth of 5%
 - Two new stores
 - Wholesale sales to remain flat, with gains across most brands being offset by the loss of more than \$2.5 million in sales as a result of one of RCG Brand's largest customers closing 38 of its 55 stores as part of a major restructure
 - Gross profit margins to compress by approximately 3% as a result of falling exchange rate (FY17 forward cover at 0.70 Vs FY16 at 0.79), with limited ability to pass price increases on to customers
- Hype
 - Like-for-like retail sales growth of 5%
 - Eight new stores

Combined group capital expenditure is expected to be approximately \$20 million in FY17.

Conclusion

Mr Brett said, "FY16 was a watershed year for RCG following the acquisition of the Accent Group just before the beginning of the financial year. We could not be more pleased about the performance of the combined business and the results that the group has delivered for the financial year that has just finished. The operational, financial and strategic outcomes that have been achieved are a testament to the skill, dedication and clarity of purpose of our management team, staff and franchisees."

"We look forward to another exciting and productive year in FY17. We are excited about the opportunities that exist to both continue to grow our existing business as well as the prospects of unlocking new opportunities associated with the acquisition of the Hype business," he concluded.

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.

³ Assumes 12 months' earnings from Hype, noting that Hype's earnings between signing and Completion are required, under the accounting standards, to be treated as a reduction in the purchase price of Hype.

Hilton Brett, together with RCG's Chairman Ivan Hammerschlag and Finance Director Michael Hirschowitz, will be taking investors through the transaction by teleconference at 10:30am AEST on Monday 4 July 2016.

Investors are invited to join by dialling 1800-804-595

Further information

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Important information

This announcement contains summary information about RCG 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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