RCG ANNOUNCES RECORD FULL YEAR PROFIT

25 August 2016

RCG Corporation today announced:

- **Underlying[1] consolidated Earnings Before Interest Tax and Depreciation (EBITDA) of $60.4 million for the year, an increase of 178% on the prior year**
- **Underlying Net Profit After Tax (NPAT) of $33.0 million, an increase of 142% on the prior year**
- **Underlying diluted Earnings Per Share (EPS) of 7.02 cents, an increase of 49% on the prior year**
- **A fully franked final dividend of 3 cents per share, taking total ordinary dividends for FY2016 to 5.5 cents, an increase of 22% on the prior year**
- **Acquisition of Hype DC for approximately $100 million[2] completed on August 4, 2016.**
- **Underlying annualised full-year EBITDA forecast of $90 million for the 2017 financial year[3]**

RCG Corporation Limited (ASX: RCG) today announced a record annual profit for the 2016 financial year, with Underlying Net Profit After Tax rising 147 per cent to $33.7 million.

Underlying Earnings Before Interest Tax and Depreciation rose 178% to $60.4 million, with underlying diluted Earnings Per Share increasing 49% to 7.02 cents.

Co-CEO of RCG, Mr Hilton Brett said, "We are exceptionally pleased with the results that the group has delivered and the progress we have made in the transformative year since RCG acquired the Accent Group.

[1] All reference to "underlying" results are references to non-IFRS financial information, which RCG believes is more meaningful for investors than reported (IFRS) financial information. A reconciliation between underlying and statutory reported financial information is provided in the Appendix to RCG's investor presentation which was released to the market on 25 August 2016

[2] As part consideration for Hype DC, 36.84 million shares were issued to the vendors at $1.425 ($52.5m). However, under the accounting standards, the share price on the date of completion must be used to calculate the purchase price. That share price was $1.71, which will have the effect of increasing the recorded purchase price of Hype DC to approximately $110m

[3] Assumes 12 months of earnings from Hype. Although RCG acquired Hype with effect from 1 July 2016, under the accounting standards Hype's profits between the effective date and the Completion date (4 August 2016) are treated as a reduction in the purchase price and are not taken to earnings.

“The business has delivered cumulative total shareholder returns of 665% over the eight years to June 2016, at a compound annual growth rate of 34%.

“It is a great testament to the strength and quality of our people, our integrated management team and our businesses that we have been able to consistently deliver outstanding results over an extended period of years, and RCG continues to be defined by the exceptional returns it delivers on shareholders’ funds,” he concluded.

The Athlete's Foot (TAF)
TAF recorded sales growth of 3.6% to $223.7 million for the year, with like-for-like sales growing 3.5%. EBITDA grew 3.8% to $13.7 million.

Mr Brett said “TAF’s growth has been driven by the ongoing investment in retail management, business intelligence and CRM systems over the last three years. In addition, the focus on, and investment in, the running category, the customer experience, and in-store standards is beginning to deliver tangible outcomes.”

These factors have resulted in an evolution of the brand with a shift in TAF’s market positioning towards the growing athletic performance space being piloted through a new store concept.

Mr Brett said “Our first store in the new format opened in mid-June at Castle Hill and we are very pleased with the early performance of the store. We have also received overwhelmingly positive consumer feedback through customer research and look forward to seeing results from the additional four stores in this format that are scheduled to open prior to Christmas.”

RCG Brands (RCGB)
RCG Brands lifted its retail sales 20% to $31.5 million, with like-for-likes growing 7%. Wholesale sales grew 2.6% to $38 million. Despite this, EBITDA fell 9.6% to $7.7 million as the growth in wholesale sales was insufficient to offset the margin compression resulting from the lower exchange rate.

Mr Brett said “The weaker than expected wholesale sales were as a result of Merrell lifestyle continuing to perform below expectations. Merrell’s heritage lies in sandals, outdoor and performance footwear. These categories continue to grow and perform strongly in all key channels and we continue to see strong product innovation coming through in these key categories.

“RCGB’s other major brands including CAT, Sperry and Saucony all performed strongly during FY2016 and we continue to be optimistic about ongoing growth of these brands through both new and existing channels.

We were pleased with the performance of RCGB’s retail channel, with both Podium Sports and the Merrell retail business recording strong like-or-like sales growth. We have leveraged our expertise across the combined group to develop a new retail concept called Grounded which will open its first pilot store in Chadstone in mid-October,” he concluded.

Accent Group (Accent)
Accent delivered $42.8 million of EBITDA on wholesale sales of $77.4 million, which were 12% up on the prior year, and retail sales of $245 million which were up 54% on the prior year. Like-for-like retail sales were up 20% on the prior year. This is on the back of double digit like-for-like growth in each of the previous three financial years.

Mr Brett said "Accent's results are simply outstanding and all of the Accent retail brands are ideally placed to capture the strong ongoing growth in the athleisure category globally. This is particularly true of Platypus and Skechers.

"The Platypus offer continues to resonate with our core consumer. Our people, the culture in our stores, and the continued innovation and evolution of the in-store environment and product offer continue to be key growth drivers.

"As a brand, Skechers continues to experience phenomenal growth both globally and domestically. It is now the second biggest athletic footwear brand in the US. The growth in athleisure and the breadth, depth and innovation that defines the Skechers product range are all key drivers of growth of the brand. The strength of the brand lies in its universal appeal across all age, gender and socio-economic groups," he concluded.

Accent opened 33 stores during the year taking the total number of stores to 140 with a further 30 stores forecast to be opened in the upcoming financial year.

Hype DC

On 4 August, 2016 RCG completed the acquisition of Hype DC, a leading Australian retailer of branded athleisure and style footwear.

The final purchase price, based on six times Hype's normalised EBITDA for the 2016 financial year, is expected to be about $100 million.

The business, which operates 58 Hype DC and three Shubar retail stores in metropolitan and major regional centres across Australia, turned over approximately $120 million during the 2016 financial year.

Mr Brett, said "The acquisition of Hype DC has consolidated RCG's position as a regional leader in the retail and distribution of performance and lifestyle footwear with over 380 stores and exclusive distribution rights to 11 iconic international brands.

"We look forward to unlocking the strategic benefits flowing from this transaction through the 2017 financial year and in years to come," he concluded.

Key personnel changes

In early August RCG announced that, after 29 years with TAF, including the last 14 as CEO, Michael Cooper will be leaving the business at the end of December.

Mr Brett said "Michael will leave having ensured that TAF business is well positioned for future growth. He has led the key strategic process undertaken over the past 18 months and will leave the business with a clear vision for the future.

"Michael has made an enormous contribution to the TAF brand and the RCG business over the last 29 years. He has been a key member of the executive leadership team and the RCG board thanks him for his passion and contribution and wishes him the very best for the future."

Given Michael's pending departure and the rapid growth in size of the RCG business over the last 18 months, the board, has appointed Accent Group's CEO, Daniel Agostinelli, to the role of Co-CEO of RCG.

Mr Brett said "Since the acquisition of the Accent Group 18 months ago, Daniel and I have formed an outstanding working relationship and partnership. Our strong complimentary skill sets, shared values and ethics will provide the group with the leadership and necessary skills to manage, integrate and continue to drive growth across the entire business.

"We will work together to deliver the business's key priorities for the new financial year. These include delivering the sales and profit targets for each of the business units, leveraging off the platform that has already been built on the back of the Accent transaction, providing the support and resources to seamlessly integrate the Hype DC business, and ensuring that there is a smooth transition from Michael Cooper to his replacement, Ant Hudson," he concluded.

Dividends

RCG has announced that it will pay a fully franked ordinary final dividend of 3 cents per share, payable on 23 September 2016 to shareholders registered on 9 September 2016. This will take the total dividends in respect of the 2016 financial year to 5.5 cents per share, an increase of 22% on the previous year.

Outlook

Based on a number of forecast assumptions, RCG is targeting annualised underlying group EBITDA of $90m for the 2017 financial year.

Mr Brett concluded by saying "RCG has experienced an outstanding and transformational year. On behalf of the board, I would like thank the staff, management and franchisees of all of our business for the exceptional results they have delivered."

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