RCG CORPORATION

# RCG ANNOUNCES RECORD HALF-YEAR PROFIT

## 24 February 2017

**RCG Corporation today announced:**

- **Underlying[1] consolidated Earnings Before Interest Tax and Depreciation (EBITDA) of $42.9 million for the half-year ended 25 December 2016, an increase of 42% on the prior year**
- **Underlying Net Profit After Tax (NPAT) of $23.3 million, an increase of 34% on the prior year**
- **Underlying diluted Earnings Per Share (EPS) of 4.3 cents, an increase of 17% on the prior year**
- **A fully franked interim dividend of 3.0 cents per share, an increase of 20% on the prior year**
- **Revised underlying annualised full-year EBITDA forecast of $85 million to $88 million for the 2017 financial year[2]**

RCG Corporation Limited (ASX: RCG) today announced a record half-year profit for the six months ended 25 December 2016, with underlying Net Profit After Tax rising 34% to $23.3 million.

Underlying Earnings Before Interest Tax and Depreciation rose 42% to $42.9 million, with underlying diluted Earnings Per Share increasing 17% to 4.3 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 period since RCG acquired the Accent Group in 2015 and Hype DC in 2016.

"With the distribution rights to 10 international brands and over 400 stores across 10 retail banners, RCG is the regional leader in the retail and distribution of performance and lifestyle footwear. With its dominant market position and diversified portfolio, the Group is well positioned to withstand tough market conditions, capitalise on opportunities and deliver outstanding long-term returns for our shareholders," he concluded.

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[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 24 February 2017

[2] 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.

*Accent Group (Accent)*
Accent delivered EBITDA $29.5 million for the half-year, an increase of 32% on the prior year. Wholesale sales were $38.3 million and retail sales were $153.3 million, which was a 28% increase on the prior year. Like-for-like retail sales were up 7.6% on the prior year. This is on the back of double digit like-for-like growth in each of the previous four financial years.

Co-CEO of RCG and Accent Group CEO Daniel Agostinelli said "Accent's results continue to be outstanding, particularly in light of the fact that Accent's full-year EBITDA was only $33 million when RCG acquired the business two years ago.

"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 consumers. 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.

"The Skechers brand continues to perform exceptionally well, both for Accent and on a global basis. Skechers USA Inc has just reported another record quarter and record year, with annual net global sales growing 13% to US$3.6 billion. This, combined with the strong product pipeline, speed to market and a product offering that resonates across a broad range of categories, provides us with the confidence to continue to drive the growth of the Skechers business," he added.

Including online, Accent rolled out 28 new stores during the half-year taking the total number of stores to 168 with a further 12 stores forecast to be opened before the end of the financial year.

*The Athlete's Foot (TAF)*
TAF recorded sales of $96.2 million for the half-year, which was down 2% on the previous year as a result of Boxing Day falling outside the December trading period this year. Like-for-like sales were in line with those of the prior year. EBITDA fell 15% to $4.8 million, both as a consequence timing of Boxing Day and the temporary closure of several stores that were refitted in the new performance format.

Mr Brett said "We are pleased with the growth being achieved in the performance categories, particularly running, and strong back-to-school sales. This growth has been offset by a decline in the lifestyle category. This is both a function of the repositioning of the business and a lack of product innovation in the lifestyle category.

"The evolution of the brand with a shift in TAF's market positioning towards the growing athletic performance space is being brought to the consumer through the rollout of a new performance-based store design and updated branding. TAF has converted seven stores to the new look performance format and is using the trading results from these stores to gain further insights and refine the offer.

"Together with the new TAF management team, the growth being achieved in the key performance and school categories, and the evolution of the new performance store format, the TAF business is exceptionally well placed to deliver long term sustainable growth," he added.

*RCG Brands (RCGB)*
RCG Brands lifted its retail sales 5% to $15.9 million, with like-for-likes growing 1%. Wholesale sales were in line with the prior year. Despite this, EBITDA fell to $1.5 million for the half-year down from $4.3 million in the prior year.

Mr Brett said, “Whilst the RCG Brands’ results are disappointing, much of the EBITDA decrease was due to the previously foreshadowed tightening of gross profit margins resulting from a significantly lower AUD/USD exchange rate than in the same period of the prior year. Moreover, both sales and gross profit margins in the Merrell retail business came under pressure, due to a cooler than the usual start to spring impacting sandal sales and the continuing decline in the lifestyle category.

“Merrell’s heritage lies in 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 core categories. RCG Brands’ other major brands including CAT, Sperry and Saucony all continued to perform well and we remain optimistic about ongoing growth of these brands through both new and existing channels,” he said.

*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, was $99 million[3].

Hype’s underlying EBITDA[4] for the first half of the financial year was $9.3 million on total sales of $65.5 million, with like for like sales for the period in line with those of the previous corresponding half year.

Mr Brett, said “The acquisition of Hype has already unlocked a number of strategic benefits for RCG, including earnings per share accretion, portfolio diversification and the strengthening of RCG’s market leadership position. As Hype becomes progressively integrated into wider group, these benefits and other opportunities associated with scale, such as the enhancement of the vertical strategy and key brand partnerships, will deliver long-term growth and strategic benefits for the group.

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

***Dividends***

RCG has announced that it will pay a fully franked ordinary interim dividend of 3.0 cents per share, payable on 23 March 2017 to shareholders registered on 3 March 2017. This is a 20% increase on the previous year’s interim dividend.

***Outlook***
In light of challenging trading conditions since Boxing Day, RCG has revised its full-year annualised underlying group EBITDA guidance from $90m to a range of $85 million to $88 million in FY2017.

[3] 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 $109m.

4 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 earning

Mr Brett concluded "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. 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."


***For further information contact:***

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***Investor Conference Call:***
An investor conference call will be held at 11:00am (AEDST) on 24 February 2017. Dial in details are as follows:

- Australian Toll-Free: 1800 685 494
- International: +61 3 8687 0650