RCG CORPORATION

RCG ANNOUNCES RECORD FULL YEAR PROFIT

28 August 2017

RCG Corporation today announced:

- **Underlying[1] consolidated Earnings Before Interest Tax and Depreciation (EBITDA) of $78.3 million for the year, an increase of 30% on the prior year**
- **Underlying Net Profit After Tax (NPAT) of $39.9 million, an increase of 21% on the prior year**
- **Underlying diluted Earnings Per Share (EPS) of 7.48 cents, an increase of 7% on the prior year**
- **A fully franked final dividend of 3 cents per share, taking total ordinary dividends for FY2016 to 6 cents, an increase of 9% on the prior year**

RCG Corporation Limited (ASX: RCG) today announced a record annual profit for the 2017 financial year, with underlying EBITDA rising 30% to $78.3 million.

Underlying Net Profit After Tax rose 21% to $39.9 million, with underlying diluted Earnings Per Share increasing 7% to 7.48 cents.

Co-CEO of RCG, Mr Hilton Brett said, "We are pleased with the results that the group has delivered and the progress we have made over the last 12 months.

"In addition to delivering another record result, we completed the acquisition of Hype DC and fully integrated it into our operating structure. In addition, we opened more than 50 new stores, commenced the rollout of the TAF performance store format, and delivered three new, best-of-breed eCommerce sites.

"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 continue to develop, evolve and grow our business," he concluded.

[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

Accent Group (Accent)
Accent delivered $67.1 million of underlying EBITDA, an increase of 57% on the prior year. Retail sales for the year rose 59% to $512.5 million. Like-for-like retail sales were up 2.6% on the prior year. Wholesale sales for the year were $77.4 million, 4% down on the prior year.

Co-CEO of RCG, Mr Daniel Agostinelli said, “It has been another remarkable year for the Accent business, which now includes 250 stores across five retail banners, including the 65 Hype DC stores that were incorporated into our infrastructure during the year, and the distribution rights to six international brands.

“In addition to rolling out 50 new stores and refitting 15 existing stores, Accent launched brand new, best-in-class Platypus, Skechers and Vans websites. Furthermore, we are progressively rolling out click-and-collect and click-and-dispatch functionality across our entire network. Our omnichannel capability and team has enabled Accent to increase its digital sales by 99% during FY17.

“Now that we have completed the integration of Hype, we intend to leverage off the investment that we have made in our infrastructure over the last two years to support and drive market leading omnichannel, B&M store rollout and customer engagement. In addition, we will focus on continuing to strengthen relationships with key partners and consolidate our position as the market leader in our sector.

“We will do this by continuing to roll out stores, particularly in our Platypus and Skechers banners, building on our omnichannel capability, and continuing to focus on delivering outstanding consumer experiences in all channels,” concluded Mr Agostinelli.

The Athlete's Foot (TAF)
TAF recorded sales growth of 0.8% to $227.2 million for the year, with like-for-like sales growing 0.5%. EBITDA fell 8% to $12.6 million.

Mr Brett said “While the 2017 results were disappointing, the profit fall can be attributed in equal parts to two primary factors, both of which set the business up for future growth.

“Firstly, the three largest corporate stores were all closed during the year for several weeks while the they were converted to the new performance format. This resulted in a significant amount of lost revenue during the period. Secondly, during the year an investment was made in additional resources to drive the future growth and success of the business. We believe that both these initiatives will have a positive long-term impact on the performance of the business,” he added.

Following the strategic review of the TAF business’s market position and consumer offering during FY16, the re-positioning of the brand back towards its performance heritage began in earnest in FY17, with the conversion of nine stores to the new performance format. It is expected that at least 30 stores will be converted by the end of FY18.

Mr Brett said “During the new financial year, TAF will deliver its new performance branding to the market across all consumer touchpoints and channels. It will also deliver enhanced CRM and loyalty capabilities through new technology and consumer data platforms, as well as a brand new, decentralised eCommerce platform.

“We are confident that the TAF management team has the tools, resources, skill-set and directional focus to deliver positive sales and profit growth in FY18 and beyond,” he concluded.

RCG Brands (RCGB)

RCG Brands lifted sales 1.2% to $70.3 million. Wholesale sales grew 0.8% to $38.3 million and retail sales grew 1.7% to 32.1 million, however like-for-like sales fell 2.6%. EBITDA declined 62% to $3 million.

Mr Brett said "While these results are disappointing, the sharp reduction in both gross profit and EBITDA margin was foreshadowed last year and is a function of a significantly lower exchange rate than in the previous year.

"We are optimistic that FY18 will be a much stronger year for the business. We expect improved margins through an improvement in exchange rates, with all of FY18 being locked in at USD0.74 to the Australian dollar.

"We have also seen pleasing product innovation in Merrell's lifestyle category and we expect this new product to drive growth in both the retail and wholesale channels. Moreover, Saucony continues both to benefit from, and support, the growth of the performance channels in TAF. Finally, we expect CAT to continue to leverage off the its brand equity and product innovation in both industrial footwear and workwear to deliver growth in FY18," he concluded.

Omnichannel

Total online sales (excluding click-and-collect and click-and-dispatch) grew by 79% during FY17. During the financial year, three new eCommerce sites were launched on the market-leading Magento 2 platform, making RCG one of the first companies in Australia to deliver eCommerce capability on this new platform. Since the end of the FY17, another three sites have been delivered with two more to follow during FY18.

Mr Brett said "With 430 stores across Australia and New Zealand, RCG is 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.

"All of these capabilities, together with the delivery of AfterPay across all channels, are either already in the process of being progressively rolled out across our network, or will be rolled out during the current financial year.

"We are confident that we are in an outstanding position to capitalise on the rise of digital and omnichannel shopping and expect that this will result in RCG having a larger overall share of the market segments in which it operates," he concluded.

Management change

Michael Hirschowitz, the Group CFO and Finance Director, has announced that effective 28 February 2018 and after nearly 21 years with the group, he intends to step down as both an executive and a director after almost 30 years as a full-time executive in order spend more time pursuing his other interests.

Mr Brett said "Michael has been pivotal to RCG's growth and success over the past two decades, is a trusted and brilliant colleague and friend, and an outstanding executive. It has been an honour and privilege to work so closely with him over the past 11 years and we wish him everything of the best."

Michael will be replaced in his role as Group CFO by Matt Durbin, with the role being relocated to Melbourne in order to ensure daily contact with the Accent business, which is now accounts for the majority of the group's sales and earnings.

Since 2014, Matt has been the CFO and COO of Pas Group. Prior to that, he spent 17 years at David Jones in merchandise planning, strategic planning and financial services roles, culminating in his role as Group Executive – Strategic Planning. There will be a comprehensive handover from Michael to Matt, ensuring a seamless transition.

Dividends

RCG has announced that it will pay a fully franked ordinary final dividend of 3 cents per share, payable on 25 September 2016 to shareholders registered on 11 September 2016. This will take the total dividends in respect of the 2017 financial year to 6 cents per share, an increase of 9% on the previous year.

Outlook

Mr Brett said "Our management team has developed and implemented processes, structures and plans ideally suited to countering the threats and capitalising on the opportunities that we expect to face over the next 12 months and beyond, and we expect another year of profit growth.

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

For further information contact:

Hilton Brett
CEO, RCG Corporation Limited
(02) 8310-0008
0411-682-912
hbrett@rcgcorp.com.au

Media enquiries:

Tim Allerton
City Public Relations
(02) 9267 4511

Investor Conference Call:

An investor conference call will be held at 10:30am (AEDST) on 28 August 2017. Dial in details are as follows:

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