28 August 2018

ACCENT GROUP DELIVERS RECORD FY18 PROFIT

PERFORMANCE HIGHLIGHTS

- **Underlying[1] consolidated Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $90.8 million for the 52 weeks ended 1 July 2018, up 16.0% on the prior year**
- **Underlying Net Profit After Tax (NPAT) of $47.1 million, up 17.9% on the prior year**
- **Underlying diluted Earnings Per Share (EPS) of 8.78 cents, up 17.3% on the prior year**
- **A fully franked final dividend of 3.75 cents per share bringing full year dividends to 6.75 cents per share, up 12.5% on the prior year**
- **Total Accent Group sales (including The Athlete's Foot franchise sales) of $861 million**
- **Accent Group Sales (company owned) of $676 million, up 9.3% on the prior year**
- **Digital sales up 131% on the prior year**
- **Strong Cash on hand of $38.8 million after $30 million of term debt paid down during the year**
- **The Athlete's Foot – 28 stores now under corporate ownership and the New Zealand master franchise re-acquired**

Accent Group Limited (ASX: AX1) today announced a record full year profit for the 52 weeks ended 1 July 2018, with underlying Net Profit After Tax rising 17.9% to $47.1 million.

Underlying EBITDA rose 16.0% to $90.8 million, with underlying diluted Earnings Per Share increasing 17.3% to 8.78 cents.

Accent Group CEO, Daniel Agostinelli, said "We are delighted with the record profit that the Group has delivered for the FY18 year. In the face of a challenging consumer environment and increasing competition from international entrants, our strategy of delivering a best in class customer experience has delivered strong results. We have made good progress against our

[1] Unless otherwise stated, all FY18 results and references to growth are based on FY18 underlying results (52 Weeks to 1 July 2018) and pro-forma underlying FY17 results (53 Weeks to 2 July 2017). The pro-forma underlying results for the full-year to 2 July 2017 include the sales, gross profit and EBITDA for Hype DC for the full period including the period prior to completion (1/7/16 – 3/8/16). FY17 pro-forma sales of $617.8 million include $10.7 million of sales for the Hype business, reported sales for the period were $607.1 million. Refer to the Accent Group Limited FY18 investor presentation Appendix for reconciliations between underlying and statutory reported results.

growth plan, including increased digital sales and new stores along with a significant improvement in gross profit margin through vertical brand sales and reduced discounting."

The Chairman of Accent Group, David Gordon, said "The investments that the business has continued to make in digital capability, store environment, people and marketing have ensured that the company is well positioned to continue delivering a world class customer experience and growth in shareholder value."

Financial overview

Underlying Financials ($ millions)	FY18 - Full-year to 1 July 2018	FY17 - Pro-forma[2] Full-year to 2 July 2017	Var.
Total Sales (inc. TAF)[3]	**860.8**	820.7	**Up 4.9%**
Accent Group Sales (company owned)	**675.6**	617.8	**Up 9.3%**
Like for Like retail sales[3]	**2%**	1.5%	
Gross Profit %	**54.8%**	52.8%	**+200bp**
EBITDA	**90.8**	78.2	**Up 16.0%**
NPAT	**47.1**	39.9	**Up 17.9%**

Dividends

Accent Group has announced a final ordinary dividend of 3.75 cents per share, fully franked, an increase of 25% on the prior year final dividend. The dividend is payable on 27 September 2018 to shareholders registered on 13 September 2018. This brings the ordinary dividends declared during the year to 6.75 cents per share, representing a 77% payout ratio for the year.

Retail

Company owned retail sales grew strongly to $566.9 million, which was 12.2% up on the prior year. This was driven by strong growth in digital sales of 131% and new store rollouts. Like-for-like (**LFL**) retail sales for the second half of FY18 grew by 3%[3] and were up 2%[3] for the full year.

The business continued the strategy of reduced discounting, which in June negatively impacted LFL sales, but resulted in a significant margin improvement. Accent Group Gross Profit Margin % for H2 FY18 was up 350bp on H2 FY17.

Accent Group opened 31 new stores and closed 15 stores during the year, with some standout performances from new store formats. The targeted investment in store concept updates continues with new "next level" concepts launched for Hype (QVB Sydney, Queen St Mall

[2] Underlying pro-forma results (refer to note 1 on page 1) include FY17 pro-forma sales of $617.8 million (including $10.7 million of sales for the Hype business). Reported sales for the period were $607.1 million.

[3] Includes The Athlete's Foot franchise store sales

Auckland) and Platypus (Bondi Junction), all performing ahead of expectations. During the financial year, 29 stores were refurbished.

Mr Agostinelli said “The new concept stores for Hype and Platypus continue to evolve our in-store design, bringing the key elements of a world class integrated (stores and digital) retail experience to our customers. The results achieved from our new store openings continue to be ahead of business case expectations in both EBITDA performance and return on capital. As flagged at the half-year, we closed a number of stores where agreement with landlords on sustainable renewal terms could not be achieved. We expect this to continue in FY19.”

In the retail banners, Skechers, Dr. Martens, Vans and Timberland all traded strongly during H2, with sales in Platypus, Merrell and Hype in line with expectations. The improvement in Hype performance has continued with Hype sales and EBITDA well ahead of last year.

Sales performance in The Athlete’s Foot (**TAF**) business showed an improvement on the first half with the rollout of the eCommerce decentralised fulfilment to all stores now complete. TAF digital sales are up more than 100% on last year since this deployment. Corporate store sales significantly outperformed the broader franchise network reflecting the investments made in store fit-outs, inventory and people. During the year, a number of TAF stores were acquired and we now have 28 corporate stores in Australia.

Mr Agostinelli said “We are very pleased with the results of our retail business and are confident that we have the right strategies, teams and resources in place for each of our banners to capitalise on the opportunities that lie ahead.”

Omnichannel

Total digital sales, including click-and-collect and click-and-dispatch, grew 131% during FY18. During the year a range of new initiatives were implemented, including 4 new eCommerce sites for Timberland, Dr. Martens, Platypus New Zealand and Skechers New Zealand, the launch and rollout of click-and-collect and click-and-dispatch in Platypus and Hype and the rollout of Afterpay in-store for all retail banners. During FY19, Accent Group will implement and roll out further new initiatives including endless aisle in-store, Vans New Zealand, The Trybe, a new website focused on kids shoes (due to launch in October) and same day delivery (launched July).

Mr Agostinelli said “Digital sales continued to grow strongly and beyond expectations. With a nationwide network of 446 stores and digital sites, we are uniquely positioned in our sector to deliver an integrated, seamless customer experience through click-and-collect, click-and-dispatch, endless aisle and same day delivery.”

“We have been planning and investing in our digital strategy for several years and believe we have the platforms to take our businesses to the next level of growth and continue to out-perform others in our sector in both Australia and New Zealand”, he added.

Wholesale

Wholesale sales for the year were $108.7 million, with strong performances in Vans, Dr. Martens, Merrell and CAT. Skechers wholesale sales were below last year. As we execute the strategy to grow our Skechers store network, we expect moderate decline in Skechers wholesale sales.

Wholesale gross profit margins were strongly up on the prior year due to cleaner inventories and improved exchange rates. Accent Group continues to drive the growth of exclusive brands through its retail store network with Vans and Dr. Martens growing strongly in Hype during the year.

Leveraging Skechers' learnings in the US, from H2 FY19 we plan to supply Amazon in Australia on a wholesale basis with selected brands and styles across our distribution portfolio. We expect this to be a new source of growth for the wholesale business and is consistent with global practice where a number of our brands trade with Amazon as part of their regular distribution channels.

Growth Plan Update

New Stores**:** Based on the continued strength of new store performance, more than 30 new stores will open in FY19. Going forward, there is potential for a further 30-40 new stores across the group over the next 2-3 years. As part of our new store program, we have secured a lease to open a Platypus Megastore in Melbourne Central that is around 600m2 in size and will showcase third party brands, a full range of Accent vertical brands and accessories.

The Athlete's Foot corporate (owned) stores**:** Accent Group is implementing a strategy to build a strong network of TAF corporate stores. The expanded corporate network will be built through the acquisition of selected franchisee stores where franchisees are willing sellers, as well as the opening of new flagship CBD stores and outlets. Over the past 12 months the corporate store network has grown from 12 stores to 28 stores now under TAF corporate ownership in Australia. We expect that a further 5-10 Australian franchise stores will be acquired in the FY19 financial year.

TAF has also reached agreement to repurchase the New Zealand (NZ) master franchise licence along with 6 NZ corporate stores and 3 NZ franchise stores. This will take effect from the beginning of October 2018.

The ownership of a strong network of corporate stores enables the business to provide brand leadership, to deliver a contemporary customer experience and to react quickly to market and competitive trends. Along with targeted improvements in sales, the full EBITDA margin of these stores will now be captured rather than just the previous royalty payments.

Due to the investment required to acquire the stores and develop a strong retail infrastructure, the EBITDA impact of the TAF acquisitions will be broadly profit neutral in FY19, with the benefit growing over time. The investment required in FY19 to acquire TAF corporate stores and the NZ TAF business will be funded from cash on hand, free cashflow and existing debt facilities.

Vertical & emerging brands**:** As part of the strategy to drive improved gross margins and product differentiation in all stores, a dedicated team has been set up to focus on vertical and emerging brands. During FY19, several exciting product initiatives will launch in Hype, including new exclusive brands Filling Pieces and ARKK, a range of Hype branded apparel and accessories, the introduction of RM Williams boots and further range expansion of Vans and Dr. Martens. In the Platypus business, the focus is on increased penetration of vertically distributed brands and owned accessories and shoe care products.

In other product initiatives, we have secured supply of new Nike and Adidas styles from FY19. Hype will have access to Adidas Ultraboost and selected new Nike styles not previously available to Hype.

International**:** As flagged at the half year results release, the company is investigating expansion in a range of international markets. The evaluation of entry opportunities in several markets is ongoing. Our preferred model for international expansion is organic direct entry through the Platypus brand.

CEO contract update

Following the transition to a single Group CEO, Daniel Agostinelli's service agreement has been amended to provide for a mutual notice period of 12 months (previously 6 months).

Outlook

LFL retail sales for the first 7 weeks of the second-half are up 4.6%.

The company is targeting mid-single digit EBITDA growth in FY19. This is expected to be achieved through low single digit LFL store growth, continued strong digital growth, new stores, stores annualising from FY18, continued margin improvement through vertical and emerging brands and reduced discounting, which will primarily benefit margins in H1. We expect the TAF new corporate store program will be broadly earnings neutral after implementation costs in FY19 and there will be some upfront investment and expenditure incurred opening in international markets.

The company refinanced its debt facilities on 17 August 2018, in advance of their maturity. The new $154.8 million facility is provided by NAB and HSBC and consists of a combination of 3 and 5 year terms.

Mr Gordon said, "The increased final dividend signals the confidence of the Board in the performance and financial strength of the company. For FY19, the Board reiterates the intention to pay fully franked dividends and a dividend payout ratio of 75% to 80% of profit after tax is targeted."

Mr Agostinelli concluded "Going forward, we intend to continue our strategy of avoiding lazy, discount-fuelled retailing, and instead drive profitable sustainable sales and margin growth through a world class omnichannel offering, best in class websites and fulfilment infrastructure, exciting and innovative store environments and the magic of our in-store customer experience. Accent Group continues to be defined by strong cash conversion, and the consistent strong returns it delivers on shareholders' funds.

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Investor Conference Call:
An investor conference call will be held at 10:30am (AEDST) on 28 August 2018. Dial in details are as follows:

- Australian Toll-Free: 1800 685 494
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