22 August 2019

ACCENT GROUP DELIVERS RECORD FY19 PROFIT

PERFORMANCE HIGHLIGHTS[1]

- **Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $108.9 million, up 22.5% on the prior year**
- **Net Profit After Tax (NPAT) of $53.9 million, up 22.5% on the prior year**
- **A fully franked final dividend of 3.75 cents per share bringing full year dividends to 8.25 cents per share, up 22% on the prior year**
- **Accent Group Sales (company owned) of $772.5 million, up 14.3% on the prior year**
- **Digital sales up 93% on the prior year tracking to c15% of sales**
- **Strong cash on hand of $37 million**
- **10 year earnings per share compound annual growth rate of 14.5%**

Accent Group Limited (ASX: AX1) today announced a record full year profit for the 52 weeks ended 30 June 2019, with EBITDA increasing 22.5% to $108.9 million.

Statutory Net Profit After Tax[1] increased 22.5% to $53.9 million, with dividends per share increasing 22.2% to 8.25 cents.

Accent Group CEO, Daniel Agostinelli, said: "*FY19 has been another record year of profit for Accent Group. The company continues to deliver against its growth plan objectives in gross margin improvement, new store rollouts, The Athlete's Foot (**TAF**) franchise acquisitions and innovation both in the digital and instore customer experience*".

The Chairman of Accent Group, David Gordon, said: "*The focus on innovation at Accent has never been stronger. The pace of change that the management team continues to drive has accelerated and the Board has great confidence that the ongoing investments in digital capability, store environment, store formats and new business development will ensure that the company is well positioned to continue delivering a world class customer experience and growth in shareholder returns*".

[1] All financials in this release are presented on a statutory reported basis with no adjustments unless otherwise stated.

Financial overview

($ millions)	FY19 - Full-year to 30 Jun 2018	FY18 - Full-year to 1 July 2018	Var.
Total Sales (inc. TAF)	**935.3**	860.8	**Up 8.7%**
Accent Group Sales (company owned)	**772.5**	675.6	**Up 14.3%**
Gross Profit %	**56.1%**	54.8%	**+130bp**
CODB %	**45.1%**	45.6%	**-50bp**
EBITDA	**108.9**	88.8	**Up 22.5%**
EBIT	**80.6**	64.7	**Up 24.6%**
NPAT	**53.9**	44.0	**Up 22.5%**
EPS	**10.02 cents**	8.23 Cents	**Up 21.7%**

Dividends

Accent Group has announced a final ordinary dividend of 3.75 cents per share, fully franked. Consistent with the approach communicated in H1 FY19, the final dividend is more closely aligned to the earnings per share and cashflow generated in H2. The final dividend is payable on 26 September 2019 to shareholders registered on 12 September 2019. This brings the ordinary dividends declared during the year to 8.25 cents per share, an increase of 22.2% on last year and representing an 82% payout ratio for the year.

Retail

Company owned retail sales grew strongly to $656.2 million, 15.8% up on the prior year. This was driven by strong growth in digital sales of 93% and new store rollouts. Like-for-like (**LFL**)[2] retail sales for the second half of FY19 grew by 3.5% and were up 2.3% for the full year.

Gross margin improvement in retail was achieved from the ongoing removal of category and core discounting in H1, increased penetration of our vertical distributed brands, new vertical product in shoe care, socks and accessories and margin improvements in the acquired TAF stores. In the June sales period, the company drove a strong inventory clearance program that had some impact on gross profit margin % and resulted in higher LFL sales and the lowest ever levels of aged inventory.

In the retail banners, Skechers, Platypus, Vans, Dr. Martens, Timberland and Merrell all traded strongly during H2, with sales in TAF, Hype and Subtype in line with expectations.

[2] LFL sales include The Athletes Foot Franchise sales.

The Group opened 54 new stores and closed 21 stores growing to a total of 479 stores (385 owned stores including online sites, 94 TAF franchise stores). Innovation in store design and new formats continues. In H2 FY19, we launched new store banners and formats including a Platypus Megastore in Pitt Street Sydney, a flagship Subtype store in Melbourne, the first Australian CAT concept store, a flagship TAF CBD store in Melbourne and 4 The Trybe stores across Melbourne and Sydney. The performance of new stores has been ahead of expectations with a strong return on investment and an average cash payback period of around 18 months.

TAF sales performance in both corporate and franchise stores was ahead of last year on both a total and LFL basis. TAF digital sales continue to grow strongly, up more than 87% for the year. The business acquired and opened 32 TAF stores to bring the total number of corporate stores to 49 at the end of FY19.

Digital sales grew 93% during FY19. A range of new initiatives were implemented, including new websites launched for Subtype, The Trybe and Vans NZ and the rollout of endless aisle and same day delivery. Customer take-up and our performance for express delivery has been ahead of expectations with most same day deliveries fulfilled in under 3 hours from purchase.

The profitability of our digital channel continues to grow and is now equivalent to the profitability rate of stores. The integrated inventory model, enabled through click- and-collect, click-and-dispatch and endless aisle, provides customers access to our entire inventory base. This capability enables a flexible customer fulfilment model and has the added benefit of accelerating the clearance of aging and slower moving inventory, reducing the discount required to clear this stock and driving gross margin improvement.

Mr Agostinelli said: "*Our retail business continues to go from strength to strength. We continue to evolve our instore design and customer experience across all banners with new customer experience elements, including shoe cleaning and monogramming/personalisation services, digital screens and permanent DJ booths in the Platypus megastores. TAF has commenced the rollout of MyFIT 3D, the latest foot scanning technology that scans a customer's foot and delivers real-time product recommendations based on the best fit solution for that customer*".

Wholesale

Wholesale sales for the year were $116.3 million, 7% ahead of prior year with strong performances in Vans, Dr. Martens, Merrell and CAT and Stance. Skechers wholesale sales were below prior year, consistent with expectations as we execute the strategy to grow our Skechers store network.

Wholesale gross profit margins were up on the prior year due to cleaner inventories and improved exchange rates.

Growth Plan Update

New Stores

Based on the continued strength of new store performance and the attractive deals available in the market, more than 40 new stores (excluding store closures) are planned to open in FY20 across Hype, Platypus, Skechers, Dr Martens, Cat, Merrell, TAF and Vans. Going forward, there is potential for a further 30-40 new stores across the Group in these banners by FY22.

The quality of the deals available in the market means that in many cases, the upfront landlord contributions make the new stores cashflow positive in the first month.

The Athlete's Foot corporate (owned) stores

Accent Group continues to build a strong network of TAF corporate stores. The Group now has 49 corporate stores including the repurchase of the New Zealand master franchise and expects to have at least 65 corporate stores by the end of FY20. The corporate store program is expected to add to Group profit growth in FY20 resulting from the annualisation of the stores acquired and opened in FY19, the additional stores planned to be acquired and opened in FY20 and the incremental TAF support office costs. On average, each acquired TAF corporate store adds around $1.5 million in sales per store at an EBIT margin of 13-15% (pre support costs). As previously outlined, we also expect EBIT margin growth over time from the acquired stores, arising from an increased mix of Accent vertical product and brands and other network efficiencies.

Digital - Core

The strong growth in digital is expected to continue and we are now targeting 20% digital sales within the next 3 years. This growth will be driven through continuing to evolve our 17 brand websites, improving customer experience on digital platforms and better targeting our customers by leveraging our 4.8 million strong database and new web-based AI driven CRM technology available in the market.

Retail Banner Differentiation - Hype and Platypus

The Group plans to dial up its focus on the consumer proposition in both Hype and Platypus by evolving the product assortments to best represent the target consumer segments of each of these banners.

In discussion with some of the Group's largest brand partners, including Nike and adidas, Hype will extend its focus on the sneaker obsessed teen, working with the brands to launch new innovations, more quick-to-market product and the introduction of expanded assortments. This will be supported by further investment in new emerging global brands like Veja, Golden Wolfe and Superga to service the fashion conscious consumer.

Platypus will strengthen its appeal with the street & fast fashion consumer, extending the product offering in brands including adidas, New Balance, Dr Martens, Tommy Hilfiger and Skechers. The Platypus range will also include investment in a stronger mix of global vertical brands and products along with brands breaking into new trends. The investment in street fast fashion will be supported by the emergence of an ever-growing action sports consumer, underpinned by distributed brand Vans and supported with increased focus and partnership with Nike on the SB range.

International

Following the update in February, there are still no international opportunities that meet our minimum investment criteria. Whist we will continue to review opportunities internationally, domestic expansion opportunities have been identified that are more attractive than the international opportunities reviewed to date. As such, growth initiatives in the near term are expected to be largely domestic.

The Trybe

In October 2018, we launched The Trybe, a kids focused online site to target a new growth segment for Accent Group. Based on the success of this launch, we have now opened 4 The Trybe stores at Highpoint (Vic), Fountain Gate (Vic), Macarthur Square (NSW) and Werribee (Vic). The performance of these stores has been well ahead of expectations and we are planning to open further stores before Christmas and up to 12 stores by June 2020. The Trybe stores incorporate innovative customer experience elements, including contemporary fitting spaces, digital screens and interactive play zones. Based on market analysis and results to date, there is an opportunity for at least 40 The Trybe stores in Australia and NZ over time.

New Footwear Concept - PIVOT

Accent Group announced today that it will launch and trial a new lifestyle footwear concept called PIVOT. The new concept will focus on servicing the sport & street inspired value conscious consumer through the best global brands in both the sporting goods and lifestyle market segments. With a focus on providing the entire family with their footwear solution, the PIVOT brand will carry a wide range of branded offerings from Nike, adidas, Puma, Converse, Skechers, Vans, CAT, New Balance and more, covering categories including lifestyle, casual, street, sport and training.

Mr Agostinelli said: "*Following a market segment review and extensive consultation with our global brand partners, we identified that there is a value segment of lifestyle footwear product available in international markets that is not currently available in Australia. It is our plan to test the opportunity to showcase a branded value-oriented shoe offer in an exciting new concept called PIVOT. The first stores and a PIVOT website are planned to open in H2 FY20*".

Global Vertical Brands - Distribution agreements

During the year, the Group extended its exclusive vertical distribution and licence agreements with Palladium, CAT, Saucony, Timberland and Stance. In addition, we have reached in principle agreement with Sperry to extend the licence to December 2022 and with Merrell to extend the licence to December 2024.

Vertical Products

In November 2018, we launched a range of Hype, Platypus and TAF branded socks, accessories, shoe cleaners and custom laces. These product ranges have performed well ahead of expectations, demonstrating the strength and customer trust in our core retail banners. This program generated $4.5 million of sales in FY19 and is expected to grow to at least $15 million of sales in FY20, at gross margins over 70%.

Outlook

LFL retail sales for the first 7 weeks of the H1 FY20 are up 2.7%.

The Group is targeting profit growth in FY20, expected to be achieved through low single digit LFL growth, continued strong digital growth, 40 new stores, 54 stores annualising from FY19 and 65 current and new TAF corporate stores. Both gross profit margin % and cost of doing business % are expected to be in line with the prior year. The underlying gross margin % is expected to grow as a result of increased vertical brand and product penetration and TAF margin expansion, offset by the currency impact of a lower AUD. We expect the profit impact of The Trybe and PIVOT to be broadly neutral in FY20 (inclusive of implementation costs).

Mr Gordon said: "*The increased final dividend and strong payout ratio reinforce the confidence of the Board in the performance and financial strength of the company. Accent Group has delivered strong compound annual earnings per share growth of more than 14% over the last 10 years and the FY19 results demonstrate that the growth plan is on track. The management team objectives are strongly linked to shareholder outcomes through the company's long-term incentive plan which requires compounding earnings per share growth of at least 10% per annum.*

The Board remains committed to returning all excess cash to shareholders and to growing dividends over time. Future dividend payments will continue to align to net profit after tax generated in the relevant period and reflect the cash requirements of the business as we continue to invest in growth".

Mr Agostinelli concluded: "*The Group is well positioned for growth with a core focus on our customers and a strong pipeline of current and mid-term growth initiatives. Sustainable margin improvement remains a key focus, including avoiding "lazy" discount fuelled retailing, increasing vertical brand and product mix and operating efficiencies. Accent Group continues to be defined by strong cash conversion and the consistent strong returns it delivers on shareholders' funds*".

Ends

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Investor Conference Call:

An investor conference call will be held at 9:00am (AEST) on Friday 23 August 2019. Dial in details are as follows:

- Australian Toll-Free: 1300 264 803
- International: +61 3 8687 0650

Appendix 1 – Adoption of AASB 16

In FY20, Accent Group will adopt AASB 16 (the new leasing standard) for the first time. The standard will bring the majority of owned and TAF franchise store leases onto the balance sheet. The change has no impact on net Group cashflow. The company has calculated initial pro-forma estimates of the impact AASB 16 applied to the FY19 year. These estimates may change subject to final change in accounting policies and standard interpretation by the relevant accounting standards bodies.

The estimated impact of the adoption of AASB 16 on the FY19 results is demonstrated below.

Estimated impact on Profit and Loss for the year ended 30 June 2019

	Estimated Impact ($ millions)
Increase in EBITDA	$72.3 - $79.5
Increase in EBIT	$6.9 - $9.5
Reduction in net profit before tax	($1.0) - ($3.5)

Estimated impact on the Balance sheet at 30 June 2019

	Estimated impact ($ millions)
Recognition of right of use asset	$228.8 - $252.9
Recognition of lease receivable (TAF Franchise agreements)	$27.4 - $30.3
Recognition of lease liability	($315.9) – ($349.1)
De-recognition of lease accrual / incentives	$42.0

The net effect of lease liabilities and lease assets adjusted for deferred tax will be recognised in opening retained earnings.