

ASX Announcement

Accent Group Limited 2019 Annual General Meeting Chairman and CEO address 28 November 2019

CHAIRMAN, DAVID GORDON

Good morning ladies and gentlemen. I'm David Gordon and, on behalf of the Board, it is my pleasure as Chairman to welcome you to the 2019 Annual General Meeting of Accent Group Limited.

The Company Secretary informs me that a quorum is present and I now declare the meeting open.

Joining me today is Daniel Agostinelli, our Chief Executive Officer, and our non-executive directors Michael Hapgood, Stephen Kulmar, Donna Player and Stephen Goddard. Our other non-executive director, Brett Blundy, sends his apologies, he was unable to attend today.

We are also joined by our Chief Financial Officer and Joint Company Secretary, Matt Durbin, and our General Counsel and Joint Company Secretary, Celesti Harmse. A number of our leadership team members are also in the room, as well as the Company's auditor, Deloitte, represented by partner David White.

At today's meeting, we will be considering a number of matters set out in the Notice of Meeting dated 25 October 2019 that was sent to all shareholders.

Before we address the resolutions set out in that Notice, I will ask Daniel Agostinelli to talk about the innovation that Accent is driving across the business and the growth initiatives of the Company.

I will then give you an overview of our FY19 results and how we are continuing to create value for our shareholders followed by a trading outlook. We will then proceed to the formal business of the meeting.

I will now hand over to Daniel, our Chief Executive Officer, to address the meeting.

CHIEF EXECUTIVE OFFICER, DANIEL AGOSTINELLI

Thank you David, and good morning everyone.

I would like to start by having a look back at our journey over the last 5 years and just how far we have come. We have moved from a focus on acquisition and integration, to innovation in our core business and expansion through new concepts and small targeted acquisitions to grow our market share in the \$5 billion footwear segment. The pace of this innovation continues to accelerate and deliver returns for our shareholders.

And on that note, I am absolutely delighted to report that we delivered another record full year profit in FY19 which David will cover in more detail later in the presentation.

How did we do it?

Firstly, through our culture of 'Can Do' and 'Make it Happen' people who drive our strategy of growing our market position and creating value for our shareholders.

Secondly, by being customer experience obsessed and bringing an innovative mindset to everything we do. We have a saying that we must 'Innovate or Die' which enables us to continually reinvent and adapt our business in response to the evolving consumer at every touchpoint across our in-store, digital and wholesale business.

The rate of innovation in our business continues to accelerate. And it is this hunger for innovation that fuels our growth and I will now take you through some of our FY19 growth initiatives and give you a sneak peek into what we have in store for FY20.

Store growth

Starting with the growth of stores in our core business. We continue to open new stores in line with our plan, and we are on track to open 40 new stores in FY20, excluding The Trybe and PIVOT, which I'll come to a little later in the presentation.

New stores are allowing us to continually evolve our store designs to bring our customers a world class retail experience, and at the same time they generate strong cash conversion with an average store payback of less than 18 months.

Innovation in store design and new formats continues. In FY19, we opened 2 Platypus "superstores" in Pitt Street Sydney and Melbourne Central. These stores are around 600m² each and showcase our third-party brands as well as a full range of Accent vertical brands and accessories.

We also opened a Subtype store in Melbourne the first standalone CAT store in Australia and they have both traded well.

In The Athlete's Foot business, we rolled out MyFit 3D across the network in FY19. It is a revolutionary new fitting experience that combines our shoe expertise and knowledge of biodynamics with state-of-the-art 3D scanning technology to find the perfect fit for our customers.

The buy back of The Athlete's Foot franchisee stores continues to be a key focus for the Group. During FY19, we acquired a further 2 franchise stores in New Zealand and we expect to have at least 65 corporate stores across Australia and New Zealand by the end of FY20.

New retail concepts

I am extremely proud and excited to tell you about some of the new, innovative retail concepts we have launched.

The first one of these is The Trybe. We identified a growth opportunity in the kids footwear segment and launched the website for this business in October last year. Based on the success of the launch, we have now opened 4 stores (3 in Victoria and 1 in New South Wales) and they have performed well ahead of expectations. The Trybe stores feature innovative customer experience elements like

contemporary fitting spaces, digital screens and interactive play zones. We are on track to open another 3 stores before Christmas and plan to have a total of 12 stores by the end of FY20 with vertical accessories launching this December.

In August, we announced that we would be launching and trialling a new lifestyle footwear concept called PIVOT, and we are on track to open the first store in the second half of FY20. We identified a value segment of lifestyle footwear products available in international markets that is not currently available in Australia and decided that Accent needed to 'Pivot' into this market segment. As you can see from the slide, the store concept is fresh and unique as we focus on servicing the sport and street inspired value conscious consumer through the best global brands in both the sporting goods and lifestyle market segments. With PIVOT, we want to provide the entire family with their footwear solution, with a range of brands including Nike, adidas, Puma, Converse, Skechers, Vans, CAT, New Balance and more. We do not intend for there to be any crossover of products and styles between PIVOT and our existing Platypus, Hype DC and The Athlete's Foot banners.

It is also my pleasure to announce today that, on the 20th of November, we launched the first premium footwear and accessories online marketplace in Australia, called Cremm. This marketplace integrates products from our vertical brands, supplied brands and third-party brands into a unique digital marketplace. We launched with 50 brands and 4,500 styles and expect to double this over the next 6 months with a strong pipeline of interest from leading brands.

We believe that this business will grow our market share and, most importantly, cater to the need of our customers for convenience and 'one stop' shopping with fast, convenient and easy returns. We are aiming to have the largest premium branded footwear selection on Cremm.

And our final new concept was the acquisition of Stylerunner earlier this month. Stylerunner is the premium online site for activewear in the Australia and New Zealand market, with \$12 million in sales in FY19 across apparel, footwear and accessories and 600,000 Instagram followers. The site features premium athleisure brands and products from Nike, adidas, P.E. Nation, Jaggad, Under Armour, New Balance, Asics, Puma and many more, and signals the introduction of a substantial range of apparel to the Group. The acquisition provides a platform for additional digital growth and builds our capability in apparel.

Digital

Our digital business continues to experience strong growth, with digital sales up 93% on last year. And that is on top of the 131% growth we saw in the previous year.

We have now rolled out endless aisle and same day delivery across all our banners with great success. With endless aisle, we open our entire inventory catalogue across stores and the warehouse to the in-store customer to meet their requirement of having a full range available no matter where they choose to shop. And the demand for same day delivery and express delivery (of less than 3 hours) has been ahead of our expectations. Our customers are telling us that they want their products fast, even if it comes at a higher cost, and we will continue to offer ways in which we can meet that need.

And as well as keeping our customers happy, our integrated inventory model, enabled through click-and-collect, click-and-dispatch and endless aisle, 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.

We have also added more than a million customers to our loyalty database in the last year and we continue to invest in technology to enhance personalisation and provide an improved shopping experience to our customers.

New and vertical brands

Another key pillar of our strategy is a focus on margin improvement, and an important part of that strategy is our vertical products. In FY19, we launched branded shoe care and socks in Platypus, Hype DC and The Athlete's Foot and these products have already delivered \$4.5 million in sales, at an average margin of 70%. We are targeting at least \$15 million in sales for FY20, with an expanded vertical products range, including in The Trybe stores, and the re-launch of Shu Bar in Hype which will feature vertical branded products with high margins.

Brand licence renewals

And we continue our successful relationships with our brand partners, with a number of long-term licence agreements renewed in the last year. We have the pleasure of representing these incredible brands and these licence renewals demonstrate the trust they have in us to continue to deliver outstanding results.

So as you can see, we have a lot of exciting things on our plate, and I am confident that our commitment to innovation and our growth plan will deliver another great year in FY20.

Thank you. I will now hand you back to our Chairman, David Gordon, to give you an overview of our FY19 results and our trading outlook before conducting the formal business of the meeting.

CHAIRMAN, DAVID GORDON

FY19 Financial Performance

Thanks Daniel. It is now my pleasure to give you an overview of the Company's financial performance in FY19.

The Company once again delivered a record profit in FY19 and improved its performance on every key financial metric. EBITDA increased by 22.5% to reach \$108.9 million, with Net Profit After Tax also increasing by 22.5% to \$53.8 million.

And these results have translated into continued value creation for our shareholders. In FY19, Earnings Per Share was up over 20% and the Company paid full year dividends of 8.25 cents per share, up 22% on the prior year.

The increased final dividend and strong payout ratio reinforce the confidence of the Board in the performance and financial strength of the company. The Board remains committed to returning 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.

Shareholder value creation

On a longer-term view, our Company has delivered total shareholder returns over the last 10 financial years of 850%, or 25.3% per annum. This means that we have significantly outperformed the ASX300 Index over the same period.

Our Company continues to deliver increased shareholder value through a strong balance sheet, sustainable sales and profit growth. The Board is fully supportive of the growth strategy that Daniel and his team is driving and, by having the management team objectives strongly linked to shareholder outcomes through the Company's long-term incentive plan, the Board is confident that the Group's growth strategy is on track.

Trading outlook

Now turning to the outlook.

As we stated in the FY19 full year results announcements, Accent Group is targeting profit growth in FY20, driven by low single digit Like for Like growth, continued strong digital growth, new stores and The Athlete's Foot corporate stores. Trade to date, including Like for Like sales, is in line with expectations.

Both gross profit margin percentage and cost of doing business percentage are expected to be in line with last year, and the new initiatives that Daniel spoke about, being PIVOT, The Trybe, Cremm and Stylerunner, are expected to be profit neutral in FY20 after implementation costs.

In conclusion, we reiterate our previous trading outlook and have seen no material changes to trading conditions since our update in August with our full year results.

Board changes

I would now like to announce some changes to the Company's Board composition.

Stephen Kulmar is retiring from the Board.

I would like to thank Stephen for his commitment and involvement in Accent over the last 12 years, including chairing the Remuneration and Nomination committee since 2016.

Stephen has played an invaluable role in guiding the Company's succession plan and incentive programs and advising, amongst other things, on strategy for brand direction, digital and marketing.

Please join me in thanking Stephen for his long-term contribution.

I am pleased to advise that Joshua Lowcock is joining the Board today. Joshua is an Executive Vice president at Universal McCann in New York City and is also their US Digital and Innovation Officer. He has deep experience gained over a 20-year career in digital and brand marketing.

In addition to his executive role, Joshua also holds a number of non-executive and advisory roles in the US. We welcome Joshua and look forward to his involvement in the future direction of the Group, particularly as digital becomes an increasingly important part of our business.