Accent Group LIMITED

ACN 108 096 251

19 February 2020

ACCENT GROUP DELIVERS RECORD H1 FY20 PROFIT

PERFORMANCE HIGHLIGHTS[1]

- Net Profit After Tax of $35.3m million, up 9.7% on the prior year
- Group sales (company owned stores) of $444.2 million, up 14.1% on the prior year
- EBITDA of $67.7 million, up 10.5% on the prior year
- EBIT of $52.6 million, up 11.1% on the prior year
- Earnings Per Share of 6.54 cents, up 9.2% on the prior year
- A fully franked interim dividend of 5.25 cents per share, up 16.7% on the prior year
- Strong cash on hand of $44.1 million

Accent Group Limited (ASX: AX1) today reports H1 FY20 Net Profit After Tax up 9.7% to $35.3 million. EBITDA grew by 10.5% to $67.7 million. This result was achieved through strong sales growth from digital and new stores, profit growth in The Athletes Foot (**TAF**), underlying gross margin improvement and a focus on cost of doing business. Whilst the headline gross margin was below the prior year, this result was solid given the FX headwinds (H1 currency impact of 120bp) and more significantly the highly competitive market environment driven by the Cyber events in November. The gross margin impact to EBIT margin was largely offset by improvements in cost of doing business.

Accent Group CEO, Daniel Agostinelli, said “We are pleased to have delivered strong sales and earnings growth in a challenging environment. The strength of the Group’s digitally integrated business model, along with the ongoing focus and investment on innovation in digital and store formats, continues to drive growth.

I would also like to acknowledge the hardship and community impact caused by the bushfires over the last several months and to thank our team and our customers in affected communities for their efforts and resilience through this difficult time.”

Accent Group Chairman, David Gordon, said “The Group continues to invest in future growth including stores, digital and new incubation businesses in footwear and the high growth athleisure segment through the Stylerunner acquisition. The continued strong profit growth,

[1] Due to the material impact of the adoption of AASB16, these results are presented on a Pre AASB 16 basis which adjusts for the impact of the AASB 16 and subsequently presents the results on the most comparable basis with the prior year reported results also Pre AASB16. A reconciliation of the impact of AASB 16 is provided in the appendix and in the Accent Group half year results presentation.

cash position and confidence in the growth strategy have enabled the Board to declare a fully franked interim dividend of 5.25 cents per share."

Financial overview

Financials ($ millions)	Pre AASB 16 **H1 FY20**	Pre AASB 16 **H1 FY19**	var
Like for Like sales[2]	**2.4%**	1.2%	
Total Sales (inc. TAF)	**507.9**	458.1	**Up 10.9%**
EBITDA	**67.7**	61.3	**Up 10.5%**
EBIT	**52.6**	47.4	**Up 11.1%**
NPAT	**35.3**	32.2	**Up 9.7%**

Retail

Company owned retail sales grew to $382 million, which was 15.4% up on the prior year.

The Group opened 51 new stores during the half (including 13 in New Zealand), 26 of these stores were opened in November and December. The performance of the new stores opened continues to be ahead of expectations. The Group also closed 8 stores at lease expiry, where forward sustainable rents could not be agreed with landlords. The Group now expects to open more than 70 new stores in FY20.

In the retail banners, Skechers, Vans, Dr Martens, Platypus, Cat and Subtype were strong performers. Hype continues to be a key focus with significant work underway refurbishing stores and improving product & brand differentiation in this banner.

The strategy to grow the TAF corporate store network is on track with a further 17 stores added during the half to bring the total corporate store network to 66 stores. TAF sales and margin were ahead of last year on a like for like and total stores basis for H1. January is the largest month of the year for the TAF business, including the Back to School ('BTS') event, and we were pleased with the performance through this period, in particular the results from our Alpha vertical shoe program.

Digital sales grew 33% during H1 FY20, on top of the 94% growth achieved in H1 FY19. The Group continues to grow its customer database and investing in the digital customer experience with a focus on the evolution of customer communications. This program provides a dual benefit of direct personalised customer communications and reduced reliance and cost on paid search channels.

Wholesale, Brand and Vertical Product

Wholesale sales for the half were up 6.7% on prior year to $62.2 million (H1 FY19 sales were up 5.7%), with strong performances in Skechers, Vans, Merrell, and Timberland. This is

[2] Like for Like sales include The Athlete's Foot franchise stores

an outstanding result considering the continued store roll out strategy for Skechers and Vans where we have also opened more than 20 new stores over the last 9 months.

During the half year, the Group renewed its exclusive distribution agreements with Vans, Dr Martens and Merrell for renewal periods of between 3 and 5 years from the end dates of the prior agreements. An extension of the Sperry contract to 2022 including key commercial terms has been agreed in principle.

The Group's vertical product strategy is on track. During the half, new product ranges were released across Platypus and Hype including updated ranges of socks, cleaning products, shoelaces, bags and drink bottles. The Trybe launched accessories including socks, cleaners, laces, hair accessories sunglasses and more. In December, TAF launched, for the first time, performance socks and a range of vertical footwear for BTS under the Alpha brand.

The focus on vertical brands and vertical product continues to drive underlying gross margin which was strongly positive on a currency adjusted basis (H1 currency impact of 120bp).

New Businesses

The Trybe, Cremm and Sylerunner strategies are all on track. As they were all in start-up phase in H1, the EBIT impact of these businesses for the half was a planned combined loss of c$1m. The Trybe continues to show positive results with trade through the key Christmas and BTS trading periods in line with plan. Cremm soft launched just prior to Christmas and the key focus here for the next quarter is onboarding new brand partners and widening the product portfolio. The Subtype business, which we have now owned for 12 months, was ahead of plan and contributed positively to EBIT. Planning for the launch of Pivot is well progressed and on track for our first store to open in Shellharbour (NSW) in April 2020.

Outlook

LFL retail sales for the first 7 weeks of H2 are up 3.0%.

Profit growth in H2 FY20 is expected to be achieved through revenue growth driven by low single digit LFL growth (including digital growth), at least 70 new stores, 54 stores annualising from FY19 and growth from TAF corporate stores. Gross margin is expected to remain under pressure due to FX and the highly competitive market environment which has continued through January. The drive for cost improvement continues.

Mr Gordon said, "The growth in the interim dividend signals the confidence of the Board in the performance and financial strength of the Group. The Group's growth plan remains on track with the management team objectives 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 return excess cash to shareholders over time and dividend payments will reflect the cash requirements of the business as we continue to invest in growth."

Mr Agostinelli concluded "The management team remain focused on continued innovation, execution of the growth plan, and trading the business to respond to market conditions. Sustainable underlying margin improvement remains a key focus, including avoiding lazy, discount-driven retailing, increasing vertical brand and product mix and driving operating efficiencies. 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 9:00am (AEDT) on 20 February 2020. Dial in details are as follows:

- Australian Toll-Free: 1300 254 398
- International: +61 3 9034 4181

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Appendix – Impact of the adoption of AASB 16 *Leases*

Financials ($ millions)	29 Dec 2019 (As reported)	29 Dec 2019 (Pre AASB 16[3])	Impact of AASB 16
EBITDA	**107.4**	**67.7**	**Up 39.7**
Depreciation	**51.8**	**15.1**	**Up 36.7**
EBIT	**55.6**	**52.7**	**Up 2.9**
Interest	**7.1**	**1.8**	**Up 5.3**
PBT	**48.4**	**50.9**	**Down 2.5**
NPAT	**33.6**	**35.3**	**Down 1.7**

[3] Refer to footnote 1 on page 1