21 February 2019

ACCENT GROUP DELIVERS RECORD H1 FY19 PROFIT

PERFORMANCE HIGHLIGHTS[1]

- **Net Profit After Tax (NPAT) of $32.2m million, up 27.3% on the prior year**
- **Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $61.3 million, up 23.3% on the prior year**
- **Earnings Per Share (EPS) of 5.69 cents, up 20% on the prior year**
- **A fully franked interim dividend of 4.5 cents per share, up 50% on the prior year**
- **Group sales (company owned stores) of $389.4 million, up 11.2% on the prior year**
- **Gross Profit Margin up 280 bp**
- **Strong cash on hand of $40.1 million after $11.4m invested in the acquisition of new TAF corporate stores and Subtype**

Accent Group Limited (ASX: AX1) today announced a record half year profit for the 26 weeks ended 30 December 2018, with Net Profit After Tax on a statutory reported basis[1] increasing 27.3% to $32.2 million. This result was achieved through strong gross margin improvement, sales growth from both online and new and annualising stores and low single digit LFL sales growth.

Accent Group CEO, Daniel Agostinelli, said "The strength of our brands, stores and customer proposition along with the fully integrated omni-channel platform that has been built over the last 3 years, continues to deliver record financial results. With 12 exclusive distributed brands, 449 stores, 16 websites and more than 4 million loyalty base customers, Accent Group owns a powerful, scalable, end to end supply chain with direct access to brands and customers that ensures a strong competitive position for future growth.

In H1 FY19, the business continued the successful strategy of "no lazy retailing", to remove discounting and focus on profitable sustainable sales. This strategy resulted in LFL retail sales growth of 1.2% and gross margin 280 basis points ahead of H1 last year".

[1] All financials in this release are presented on a statutory reported basis with no adjustments. The reported results include non-cash charges for the Group's long-term executive performance rights plans of $1.1m (H1 FY18 $0.33m) and the amortisation of intangibles arising from the acquisition of Accent Group by RCG of $1.2m (H1 FY18 $1.2m).

Accent Group Chairman, David Gordon, said “The group continues to invest in future growth with significant ongoing investment allocated to deliver best in class digital capability, store environments and customer experience initiatives. The Board is delighted with the progress made on the Company’s growth plan, including continued digital growth, The Athletes Foot corporate store acquisitions, new stores and margin expansion. The strong profit and cash conversion have enabled the Board to declare a fully franked interim dividend of 4.5 cents per share, up 50% on the prior year interim dividend. This increase in dividend is also reflective of the Board’s confidence in the management team and our future growth plans”.

Financial overview [2]

Financials ($ millions)	H1 FY19	H1 FY18	Var.
Like for Like retail sales[3]	**1.2%**	1.0%	
Total Sales (inc. TAF)[3]	**458.1**	431.3	**Up 6.2%**
Company Owned Sales (retail and wholesale)	**389.4**	350.3	**Up 11.2%**
Gross Profit %	**57.3%**	54.5%	**Up 280bp**
EBITDA	**61.3**	49.7	**Up 23.3%**
NPAT	**32.2**	25.3	**Up 27.3%**
EPS (cps)	**5.69**	4.74	**Up 20%**

Dividends

Accent Group has announced an interim ordinary dividend of 4.5 cents per share, fully franked, an increase of 50% on the prior year interim dividend. On the basis of strong profit growth and operating cashflow in H1, and expectations of continued growth in H2, the Board has decided to re-align the dividend payout ratio going forward to more closely reflect the earnings per share and cashflow generated each half. The interim dividend of 4.5 cents represents 79.1% of the H1 earnings per share. The dividend is payable on 21 March 2019 to shareholders registered on 7 March 2019.

Retail

Company owned retail sales grew strongly to $331.1 million, which was 12.2% up on the prior year.

The business continued to benefit from the global momentum and strong local sales of our vertical distributed brands including Skechers, Vans and Dr Martens driving both sales growth in the standalone stores and vertical margin growth in Hype and Platypus. Platypus also traded

[2] All financials in this release are presented on a statutory reported basis with no adjustments.
[3] Includes The Athlete's Foot franchise store sales

strongly ahead of expectations. Hype traded in line with plan and experienced strong margin growth.

Margin improvement across the board resulted from the ongoing removal of category and core discounting, increased penetration of our vertical distributed brands and new vertical product in shoe care, socks and accessories.

Accent Group opened 35 new stores during the half, including a 600sqm Platypus flagship megastore in Melbourne Central. This store has traded well beyond expectations and incorporates full ranges of Accent Group brands along with customer experience elements such as digital screens, mobile point of sale terminals and inventory location, retro arcade machines, prize vending machines and a permanent DJ booth. The next Platypus superstore will open on Pitt Street Mall in Q4 this year. The Group expects now expects to open more than 50 new stores in FY19.

We continue to review our store portfolio and have implemented new performance benchmarks at lease renewal to ensure the right level of negotiated rent with landlords. This resulted in 16 store closures during the half.

Sales performance in The Athlete's Foot (TAF) was ahead of prior year on both a total and like for like store basis, and in line with expectations. Gross margin and profitability in the acquired corporate stores has been ahead of the prior year. TAF digital sales continue to grow strongly, up more than 159% on last year for the half. During H1, we acquired 26 TAF stores including the purchase and successful takeover of the TAF New Zealand business. These acquisitions were funded from operating cashflow. Implementation of this strategy is on track and the Company expects to own 50 TAF corporate stores by the end of FY19. The stores that we have owned for more than 6 months are now delivering higher like for like store sales and higher margins than they were as franchised stores. January is the largest month of the year for the TAF business, including the Back to School event and having completed this important trading period we are delighted to report that total TAF network sales were up 6.4% on the prior year with gross margin $ growing faster than sales.

Our new Subtype business has performed in line with expectations and we will open the first Melbourne Subtype store in April this year.

Digital

Total digital sales grew 94% during H1 FY19, on top of the 170% growth achieved in H1 FY18.

The Company's pricing strategy for online, as with our concept stores, is to drive sustainable full margin sales. The integrated inventory model enabled through click & collect, click & dispatch and endless aisle provides customers access to our entire inventory base. In addition to enabling a flexible customer fulfilment model and driving incremental sales, this capability has the added benefit of clearing aging and slower moving inventory more quickly, thereby reducing the discount required to clear this stock and driving gross margin improvement.

The Group continued the roll out new features in our digital infrastructure with endless aisle and same day delivery now available in all company owned stores. The endless aisle feature has been well received and allows customers in any store direct access to inventory in all our stores and the central warehouse. The same day delivery option has also seen quick customer take up and drives both a customer and cost benefit as the delivery cost is fully recovered.

Mr Agostinelli said "Digital sales and profit growth were above expectations and digital channel profitability improved strongly off a solid base. Ongoing improvements to the online customer experience, site capacity and continued investment in digital marketing drove strong compound growth. The company continues to invest in digital with a range of initiatives in the pipeline that will continue to ensure Accent's capability remains best in class".

Wholesale

Wholesale sales for the half were up 5.7% on prior year to $58.3 million, with strong performances in Vans, Dr. Martens, Merrell, CAT, Saucony and Stance. Skechers sales in wholesale were in line with expectations as we continue to roll out the Skechers store network. Wholesale gross profit margins were again up on the prior year due to cleaner inventories.

Brand & Product Update

Global Distributed Brands: During the half year the business renewed its exclusive vertical distribution and license agreements with Palladium, CAT, Saucony and Timberland. Accent Group has 12 exclusive vertical brands including strong relationships and long-term agreements with international powerhouse brands Skechers, Vans and DR Martens, that are all trending globally.

Global Third-Party Brands: Our growth and product access with Nike and adidas remain strong. Accent Group is a significant account for both these brands in Australia and we have growth opportunities with these brands through all banners. In particular through Subtype, with product we have previously not had access to, and in TAF where both Nike and adidas have a good runway for incremental growth. In H2 FY19, Hype was involved in the Australian launch of the new adidas Yeezy 360 for the first time. Hype secured a significant allocation of product for this launch which sold out in most stores on the day of launch.

Vertical Products*:* In November, the Company launched a range of Hype, Platypus and TAF branded socks, accessories, shoe cleaners and custom laces. These product ranges have performed ahead of expectations, demonstrating the strength and customer trust in our core retail brands. The retail pricing of these products is similar to their third party branded equivalents, driving gross margins of up to 80%. We expect this program will continue to expand strongly driving overall gross margin improvements.

International

Over the last 12 months, we have conducted considerable market investigation and due diligence on specific opportunities (both organic and acquisitions) in Singapore and other Asian markets. As an outcome of this disciplined approach, we have not yet identified any opportunities that meet our return requirements. We continue to investigate opportunities in international markets, including Singapore and elsewhere in Asia that meet our requirements.

Outlook

LFL retail sales for the first 7 weeks of the second-half are up 2.5% and overall gross margin percentage continues to grow and is up more than 100 basis points.

Based on the continuation of low single digit LFL sales growth, the Company now expects at least 10% EBITDA growth in H2 FY19. This improved outlook is a result of the additional new stores opened in H1, continued strong digital growth and continued margin improvement (albeit at a slower rate) through vertical and emerging brands. We continue to expect the TAF new corporate store program to be broadly earnings neutral after implementation costs in FY19.

Mr Gordon said, "The increased interim dividend signals the confidence of the Board in the performance and financial strength of the company. 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. For FY19, we expect to pay fully franked dividends in our stated range of 75-80% of profit after tax."

Mr Agostinelli concluded "We plan to continue our strategy of avoiding lazy, discount-fuelled retailing, and to instead drive profitable sustainable sales and margin growth through a world class omnichannel offering, new 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."

For further information contact:

Matthew Durbin
Chief Financial Officer
+61 3 9977 5213
+61 411 406 766

Media enquiries:

Shannon Amato
AMPR
+61 3 9428 2299
+61 435 815 586

Investor Conference Call:
An investor conference call will be held at 10:30am (AEDST) on 21 February 2019. Dial in details are as follows:

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