

RCG Corporation lifts profit, acquires new brands

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Specialty retail company RCG Corporation has acquired two new businesses after lifting its annual profit by 7.4 per cent.

The investment company that operates The Athlete's Foot chain of sports shoe stores reported a net profit of \$5.3 million in the year ended June 30, up from \$4.9 million in the previous year.

Revenue fell 7.1 per cent to \$21.997 million from \$23.666 million last year.

Shortly after midday, RCG shares were down three cents, or 7.32 per cent, at 38 cents.

RCG says profits grew on the back of the "exceptional sales performance" of The Athlete's Foot network, which recorded total sales growth of 15 per cent to \$166.7 million and like-for-like stores sales growth of 11 per cent.

"We believe that, in times of uncertainty, consumers are more inclined to gravitate towards brands that they know and trust and that this factor has stood us in good stead over the last financial year and will in the future," chairman Ivan Hammerschlag said.

RCG has won Australian rights to distribute the Merrell brand of outdoor, comfort, active lifestyle, performance footwear and apparel under an agreement with Wolverine World Wide Inc, Merrell's owner.

The agreement is effective from January 1, 2010.

"We anticipate that the Merrell business will turn over in excess of \$12 million in its first year of operation and, based on the profiles of similar distribution businesses, it is expected to deliver an EBIT contribution in excess of 20 per cent," the company said in a statement."

Given the January commencement date and the costs of establishing the business, RCG is not expecting Merrell to contribute to earnings until 2010/11.

RCG also announced the creation of a complementary chain of footwear stores that will sit alongside, and not compete with the 136-store Athlete's Foot chain.

This comes after RCG's acquisition of Shoe Superstore, a three-store chain of branded, comfort and lifestyle footwear stores for an initial \$1 million, including working capital.

The vendors have signed six-year service agreements and will receive an earn-out payment if certain performance conditions are met.

The business, which began four years ago, currently is operating at breakeven.

RCG does not expect it to have a material impact on consolidated profit for two to three years.

"Shoe Superstore presents an excellent opportunity for us to capitalise on the emerging branded comfort footwear market," Mr Hammerschlag said.

"We believe that this is a highly under-serviced sector of the footwear market, with very few retailers providing a legitimate offering in this space."

The company declared a special dividend of 2.2 cents per share and an ordinary dividend of 1.5 cents per share, both fully franked, for a total 3.7 cents per share.

No dividend was paid in 2008.

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