FINANCIAL REVIEW

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Footwear retailer RCG outlays $105 million for Hype DC

RCG CEO Hilton Brett has followed up last year's $200 million acquisition of Accent Group with the $105 million purchase of major customer Hype DC.

by **Sue Mitchell**

RCG Corp has cemented its status as Australia's fastest-growing footwear retailer by snapping up one of its major customers, footwear chain Hype DC, for as much as $105 million.

The acquisition, which comes just 15 months after the transformative $200 million acquisition of shoe retailer Accent Group, will boost RCG's annual sales by about $120 million and increase store numbers by 60 to 350, making the former wholesaler the largest footwear retailer in Australia and New Zealand by far.

Hype operates 57 Hype DC stores selling mainly athleisure and active wear brands as well as three Shubar retail stores, which sell men's and women's fashion shoes, boots and sandals, including some of RCG's brands.

RCG chief executive Hilton Brett said the acquisition would boost profits and earnings per share in the first year and enable RCG to further diversify its portfolio to more than 350 stores, nine retail offerings and exclusive distribution rights for 12 brands including Skechers, Merrell, Timberland, Sperry, Dr Martens, Platypus and Vans.

"Hype is an outstanding business that is perfectly aligned to RCG's strategic objectives," said Mr Brett. "Bringing Hype into the RCG family will unlock enormous benefits and opportunities for all the stakeholders of both businesses including staff, suppliers, customers and RCG shareholders."

The deal will be funded by a mix of equity and debt, including the issue of shares worth $52.5 million to co-founders Danny and Cindy Gilbert, and $39.4 million in secured bank debt from National Australia Bank.

The purchase price represents a multiple of six times Hype DC's normalised earnings before interest, tax, depreciation and amortisation of around $17.5 million.

RCG shareholders applauded the deal, sending RCG shares up more than 25 per cent to record highs of $1.86 before the stock closed up 35.5¢ at $1.81.

"It looks very attractive given the growth profile," said Ophir Asset Management principal Andrew Mitchell, who first bought RCG shares when they were trading around 20¢.

"We certainly see that sector in terms of fashion footwear in structural growth – you can see that in their comparable store sales," he said.

"Young people are following trends out of Europe and the US very quickly and it's all about the shoes, the jeans and your haircut."

RCG also reaffirmed its 2016 earnings guidance, confirming EBITDA would come in at the top end of its $58 million to $60 million range and forecast EBITDA of $90 million in 2017, well above previous market forecasts around $72.8 million.

Same-store sales grew 21 per cent in 2016, for the second year in a row, but growth was expected to slow to between 5 and 8 per cent in 2017.

Mr Brett said 2016 was a watershed year for RCG after the acquisition of the Accent Group in March 2015.

"We could not be more pleased about the performance of the combined business and the results that the group has delivered for the financial year that has just finished," he said.

"We look forward to another exciting and productive year in 2017 [and] we are excited about the opportunities that exist to both continue to grow our existing business as well as the prospects of unlocking new opportunities associated with the acquisition of the Hype business."

Danny and Cindy Gilbert will continue to manage the business on a day-to-day basis as joint CEOs of Hype. Danny Gilbert will join the RCG board as an executive director.