FINANCIAL REVIEW

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RCG full-year net profit slips 2.6 pc to $29.2m after its Hype write-down

RCG co-CEOs Hilton Brett and Daniel Agostinelli have forecast another year of profit growth in 2018. **Ben Rushton**

by **Sue Mitchell**

Footwear retailer RCG Corp is aiming to beat Amazon at its own game by using its network of stores to deliver online orders within three hours and give consumers access to its entire catalogue.

Australia's largest footwear chain has brushed aside concerns that Amazon's expansion will crimp sales and margins at stores such as Hype DC, The Athletes Foot and Platypus Shoes.

"The key initiatives around how you deal with Amazon is a multi-channel strategy – click and collect, click and despatch, endless aisles and three-hour delivery," RCG's co-chief executive Hilton Brett said on Monday after delivering the fifth consecutive year of double-digit underlying earnings growth.

After two major acquisitions in two years and after more than doubling its store footprint since 2015, RCG is ramping up investment in digital with the aim of lifting online sales to 15 per cent of total sales within three years.

Strong sales of Vans Old Skool shoes will help underpin sales at RCG Corp this year.

Consumers will be able to order online and collect from each of RCG's 400 company-owned and franchised stores, starting with Hype, Platypus Shoes, The Athletes Foot and Skechers stores.

RCG is also expanding its click and dispatch and endless aisle capabilities – shipping online orders from bricks and mortar stores and making its entire catalogue available to consumers – and decentralising online sales at The Athletes Foot so franchisees will benefit from online sales growth.

After striking agreements with third party freight providers, RCG plans to leverage its store footprint by offering three-hour delivery for online orders in metropolitan areas.

"We'll be able to get product to consumers quicker than Amazon," Mr Brett said.

Shares rise

2. Results for announcement to the market

			$'000
Revenues from ordinary activities	up	43.7% to	636,153
Profit from ordinary activities after tax attributable to the owners of RCG Corporation Limited	down	2.6% to	29,157
Profit for the year attributable to the owners of RCG Corporation Limited	down	2.6% to	29,157

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 26 June 2016	3.000	3.000
Interim dividend for the year ended 2 July 2017	3.000	3.000

Comments

The profit for the Group after providing for income tax and non-controlling interest amounted to $29,157,000 (26 June 2016: $29,924,000).

RCG's full-year financial results.

The digital strategy update helped counter investor concerns about Amazon, weaker earnings at Hype, slowing same-store sales growth, reduced segment disclosure and the departure of long-serving chief financial officer Michael Hirschowitz, who will be replaced by former PAS Group CFO and ex-David Jones executive Matt Durbin.

RCG shares, which have fallen 60 per cent in 12 months, rose 7 per cent to 84¢.

Group sales rose 44 per cent to $636 million, buoyed by the $99 million acquisition of Hype a year ago, the opening of 50 new stores and 79 per cent online sales growth.

Underlying net profit rose 21 per cent to $39.9 million and underlying earnings before interest tax depreciation and amortisation rose 30 per cent to $78.3 million, in line with the company's revised guidance.

However, bottom line profit fell 2.6 per cent to $29 million after RCG wrote down the brand value at Hype by $9.7 million, or one-third the brand value at the time of the acquisition, following a slump in earnings.

Earnings from the Accent Group, acquired in 2015, soared 57 per cent, offsetting weaker earnings at The Athletes Foot and RCG Brands.

'Optimistic' outlook

Mr Brett forecast another year of growth in 2018, without giving detailed guidance, citing new e-commerce initiatives, sales from stores opened last year and strong demand for new products such as Vans Old Skool sneakers and Nike's Air Force range.

Citigroup analyst Sam Teeger said consensus forecasts were currently factoring in 20 per cent net profit growth, which was "optimistic" given increased competition from new players such as JD Sports and the imminent launch of Amazon's local retail offer.

RCG's total sales in the first seven weeks of 2018 rose 24 per cent, underpinned by new stores opened last year, but same-store sales rose only 1 per cent compared with 2.6 per cent growth in the same period in 2017.

"The [sneaker] category is still growing but it's just not growing at the same rate," said Mr Brett. "People are still attracted to leisure brands like adidas, Nike and Vans, but there is definitely not as much heat in that market as there was before."

RCG maintained its final dividend at 3¢ a share, payable September 25, taking the full year payout to 6¢ a share.