

ASX Announcement

BUSINESS UPDATE

DIGITAL SALES SURGE AND ALL STORES REOPENING WITH NEW SAFETY PROTOCOLS

26 April 2020

On 25 March 2020, Accent Group Limited (ASX:AX1) (the **Company**) announced the closure of Company owned stores in Australia (**Group Stores**) from 5pm on 27 March 2020 for a period of 4 weeks. Today, we are pleased to provide a further business update, including the significant acceleration we have seen in digital sales, and to announce our plans to progressively re-open our stores in compliance with Government directives and with the safety of our team and our customers our priority.

Digital sales surge

Continuing its 5 year investment and further energised focus on digital, Accent Group has seen a surge in the Company's digital sales. Digital sales have grown from an average of approximately \$250,000 per day prior to our stores closing in March, to between \$800,000 and \$1.1 million per day for the last 2 weeks of April.

Whilst our stores were closed to the public during April, some Group Stores were opened and staffed to operate as 'dark stores'¹ using our endless aisle technology to access our entire inventory base and to enable click-and-dispatch of product to our customers. Our digital business has also responded to this shift in consumer behaviour with targeted consumer content and offers to drive traffic and conversion. As our digital sales continued to escalate, the number of Group Stores opened as dark stores increased progressively through April. All of our Group Stores and a number of our New Zealand company owned stores are now staffed and operating as dark stores, working together with our distribution centres to fulfil our digital sales.

During this period, we have also developed and implemented new in-store protocols to help ensure a safe working environment for our team members working in our dark stores.

Accent Group CEO, Daniel Agostinelli said *"After years of investment by Accent Group in our digital team and technology, I am delighted with the growth in our digital sales. It is clear that there has been a seismic and most likely enduring shift in consumer behaviour away from traditional shopping centres to shopping online. With 18 websites and our leading digital capability, Accent Group is capitalising on this trend. We will continue to drive digital growth as the number one priority in our company."*

¹ Dark stores are stores closed for trade to the public and used as fulfillment points for digital click-and-dispatch to customers.

Re-opening stores and new safety protocols

In Australia, shopping centres have been required to implement the Government's measures to manage the COVID-19 virus (such as social distancing and public gathering measures) but have remained open. Whilst many stores in shopping centres have temporarily shut during the COVID-19 pandemic period, a number of retailers have also continued trading in the centres where the Company's stores are located.

During this time, we have seen an increased demand for footwear for essential workers, such as the Skechers range for health professionals. We are also seeing strong demand for active footwear and apparel as more people are taking part in physical activities, with strong trading in these categories, particularly on The Athlete's Foot and Stylerunner websites.

Accordingly, we have made the decision to progressively re-open all Group Stores with our new safety protocols in place to comply with all Government directives and to prioritise the health and safety of our team members and our customers. We will review and adapt these in-store measures as the environment evolves.

The initial protocols will include:

- Protective items such as hand sanitiser stations, face masks, gloves, disposable try on socks and disinfectant spray
- Social distancing measures of 1.5 metres between customers and team members, including at counters and seating areas
- Contactless serving of customers and payments
- Customer capacity limits in stores
- Training for team members on social distancing and additional hygiene measures

These protocols have been trialled successfully in several stores over the last 2 weeks and we will now be progressively re-opening all Group Stores to the public by 11 May 2020.

We believe that the significant increase in our online business most likely marks a permanent shift in consumer habits in Australia and New Zealand and we expect our online sales to represent a much larger share of our total sales in the future. Our store network, along with our surging online business, is a fundamental competitive advantage to the Company, however we will not operate stores on unsustainable or uneconomic rental deals. Accordingly, in the coming months, we will be re-evaluating the location, size and format of our store network to ensure the appropriate balance between digital and store sales.

Leases and landlord negotiations

The strict directives imposed by the Federal and State Governments to combat the COVID-19 virus have had a severe impact on retail trading activity with foot-traffic in shopping centres substantially reduced.

Even though we are re-opening stores, we expect a significant ongoing impact on the revenue and profitability of our stores as a result of the substantial decrease in foot-traffic, reduced tourism, increased levels of unemployment and related economic impacts, which we expect to continue for some time.

Accordingly, the Company has been attempting to negotiate with its landlords appropriate arrangements to reflect these changed market conditions and in the spirit of the Government's recently announced mandatory code of conduct for commercial leasing arrangements.

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In principle, the Company is seeking for rent to be calculated by reference to a percentage of sales. The Company considers this to be the fairest method of ensuring that losses are shared proportionately between landlords and tenants over the coming months as the economy recovers from this social and economic crisis. Sharing the loss of mall traffic and loss of sales in this way is also consistent with the spirit and intention of the Government's announcements.

To date we have concluded successful negotiations, and subsequently have continued to pay rent, in respect of more than 100 stores, with landlords who have been willing to come to the table in the spirit of the Government code of conduct. These outcomes have been achieved with both major and independent landlords. We will continue to seek to negotiate with our other landlords in the hope that they too will engage in the spirit of the Government's announcements. Where we are unable to achieve a resolution that we consider to be fair, we will close stores.

Mr Agostinelli said: *"We are committed to maintaining our position as the largest multi-channel retailer in our market. The mix of Accent's superior digital capability and the magic of our stores gives us a key competitive advantage, but it is important that we reach agreement with our landlords for sustainable and fair rental deals. With landlords where this cannot be achieved, we will close stores. Unfortunately, that has already occurred with one of our major landlords and we have given notice to exit 28 store leases at expiry over the next 6 months. We may also be forced to take similar action for more stores in the future"*.

Supplier negotiations

The Company could not be happier with the support and understanding we have received from our major suppliers and global brand partners. Skechers, Dr Martens, Vans, Nike, adidas, New Balance, ASICS, Toll and many others have worked with us to help ensure our inventory pipeline is right sized and payment terms are aligned to reflect the current sales environment.

Wage subsidies

The Company is highly supportive of the JobKeeper program in Australia and the Wage Subsidy Scheme in New Zealand and has applied for and will be passing on the subsidies in full to all eligible employees to support our team as we do everything possible to return the business to normal operations.

Banking facilities

Over the last 2 months, the Company has secured additional banking facilities, bringing the total facilities to \$207 million with our current net debt standing at \$112 million.

Mr Agostinelli said: *"Accent Group's greatest asset is its people and I am incredibly proud of the resilience, tenacity and performance of our team through this difficult period"*.

Authorised for lodgement by:
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Company Secretary

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