Accent Group Earnings Call_February 23, 2022

Speaker 1:

Thank you everyone for joining the Accent Group FY22 half year results investor briefing. We'll begin with a presentation by Daniel Agostinelli, Group CEO, and Matthew Durbin, Group COO and CFO, followed by a Q and A session. If you'd like to ask a question, please select the raise hand button to be placed in the virtual queue. The raised hand button be found at the bottom of the Zoom interface. Now, Daniel, over to you. Thank you.

Daniel Agostinelli:

Good morning everyone, and thank you for taking the time to attend the call today. I'm joined on the call by our Group CFO, Matthew Durbin. We will now take you through the results for the half year ended 26th of December, 2021. An update on our growth plan and a trading update for the first eight weeks of H2. There will be an opportunity to ask questions at the end.

Daniel Agostinelli:

If I can now refer you to page four of our investor presentation, which was released to the ASX yesterday evening. For the first half, earnings before interest tax were at $30.3 million in line with our guidance provided to the market on the 25th of January. Trading the first half of the year was severely impacted by COVID-related disruptions and lockdowns that occurred across Australia and New Zealand. At times, through the months of July to October, more than 55% or 400 stores in the group's 700-store portfolio were required to close due to government-mandated lockdowns. In this context, I am pleased with the results that have been achieved along with the continued progress of the group that has delivered against its growth plan and its objectives.

Daniel Agostinelli:

Now turning to page five, some of the key operating highlights for the year include digital sales growth of almost 48% on top of the significant growth achieved last year, the opening of 104 new stores including new concepts in new formats, growth of 600,000 new contactable customers including significant growth in loyalty customers in our Skechers and Hype business. Our customer database is now at 9 million contactable customers.

Daniel Agostinelli:

Continued growth and performance in Stylerunner with 19 stores now trading and strong results from Stylerunner The Label, which is our vertical product, and the opening of five new concept stores in our Glue business, including four new stores, which have resonated strongly with the Glue customer. And very proud for us, the new Reebok distribution agreement with a 10-year term to 2032.

Daniel Agostinelli:

I will now hand you over to Matthew Durbin to talk about the details of the result. Thanks, Matt.

Matthew Durbin:

Thanks, Daniel. Turning to financial performance on page six. Owned sales of 525 million were up 12.5% on the prior year. We estimate that our sales were impacted by around $95 million in half one due to a combination of government-mandated lockdowns and the impact of Omicron in the last week of December. Gross margin percentage was also impacted by around 700 basis points from July to October, with more than 50% of our stores closed. The gross margin rate from November to January has recovered well, and in January and early February was ahead of prior year.

Matthew Durbin:

Inventory levels, at the end of December, we're back in line with plan, inclusive of some delays from external suppliers. We anticipate continued delays and cancellations from a small number of external suppliers for the balance of half two. Aged inventory is clean, and we are very pleased with the deliveries of new product we've received in January and February. In particular, from our internal distributed brand Skechers, Vans, and Dr. Martens.

Matthew Durbin:

Cost of doing business was well managed given the decline in sales, noting that in half one FY21 last year in that base, there were non-recurring benefits from rent abatements and wage subsidies. We also continue to invest in all of our key growth strategies through the half.

Matthew Durbin:

Turning to slide eight, on digital. A key highlight of the half is the continued growth in digital with online sales up 48% to $160 million. Digital sales across November to February, since stores reopened, continue to be strong at higher gross margins. At digital infrastructure, which includes flexible store, and warehouse fulfillment models, and multiple customer delivery offers continues to provide a competitive advantage.

Matthew Durbin:

We were able to offer pre-Christmas delivery in capital cities up to the 23rd of December. Our average delivery time in November and December was under three days despite the significant operational challenges experienced across the market, and particularly at the back end of December. We continue to see year-on-year growth in site traffic and conversion rate, as we invest in new sites and technology.

Matthew Durbin:

Turning to VIP and Loyalty on slide nine. Our customer database, contactable customer base grew by 600,000 customers to 9 million customers. This continues to be the result of a strong drive to invite customers to join in store our new Skechers loyalty program and our new Hype loyalty program. And in The Athlete's Foot the strength of our MyFit rewards program. Significant investment is underway in our new customer data platform and new loyalty programs. Moving to retail and wholesale on slide 10. Owned retail sales were up 7.7% to $443.3 million with strong growth in digital and new stores. Inclusive to the TAF franchise stores, the group now operates 738 stores, including 31 websites. During the half year, 104 new stores across all formats and closed four stores where sustainable renewing terms could not be agreed.

Matthew Durbin:

Wholesale sales were up 47.7% to $82 million, which is a new record for Accent wholesale. A new distribution brand agreement was signed with Reebok for a 10-year term to 2032. We will commence as the distributor in May. We don't anticipate any material P&L impact in the FY22 year. Benefits will start to flow into the FY23 year.

Matthew Durbin:

Turning to page 12 in our growth plan update. Stylerunner now has 19 stores trading, with Stylerunner The Label growing strongly and continuing to increase the vertical mix. We continue to target a strong network of stores in Australia and New Zealand over the next three years. Glue now has 25 stores trading and through half one, we opened five new concept stores, including four new stores that have resonated with our customer and are trading well. Work continues on gross margin improvement, leveraging broader accent capabilities, including reductions in category-wide discounting and continued growth in Glue's strong portfolio of vertical-owned brands.

Matthew Durbin:

Digital continues to grow strong with ongoing investment in our integrated digital capability and customer engagement initiatives. We feel as though digital sales will reach 30% over time. They reached 31% in the half just gone, however, that was not a normal period as we had all those stores closed. We're still targeting 30% sustainably over time.

Matthew Durbin:

VIP and Loyalty of contactable customers of 9 million. We are well progressed toward our target of 10 million contactable customers. A new Hype loyalty program launch in half one with Platypus to launch in half two this year. Customers signups to both the Skechers and Hype programs have been strong.

Matthew Durbin:

The pipeline of new stores remain strong with 140 new stores expected to open in FY22. New store performance, even through the COVID disruption, continues to be strong. The Athlete's Foot franchise by that program continues with five TAF stores acquired in half one. Our vertical program also continues to gain momentum with the strong growth in half one. Margin also continues to improve on this product as we grow volumes and improve our vertical sourcing capability.

Matthew Durbin:

Now turning to our dividend and trading update on page 13. Trade for the first eight weeks of half two has been significantly impacted by reduced customer traffic due to COVID-19 Omicron variant. Like for Like sales for the first eight weeks of half two were down 10% on prior year, and flat to the FY20 year. LFL sales for the first four weeks of January were down 19% to last year. Very pleasingly, LFL sales for the last four weeks, the most recent four weeks to Sunday, the 20th of February, have improved significantly, and we're in line with last year. Following the post Christmas sales, the group has continued to drive full price, full margin sales, and gross margin percentage over the first eight weeks, has been in line with expectation and ahead of the prior year. Given the ongoing uncertainties surrounding the impact of COVID, we've determined not to provide forward sales or profit guidance for the balance of this half or for the full year.

Matthew Durbin:

I'll now hand back to Daniel to wrap up.

Daniel Agostinelli:

Thanks, Matt. In conclusion, H1 of FY22 was a challenging half from a store closure and operations perspective. I'm pleased with the sales over the last four weeks as customers have started to return to a more normal shopping pattern, and hopeful that we can have a less interrupted second half of the year. Finally, I remain excited about the opportunities ahead for our business. We continue to build a strong defensible business in Australia and New Zealand. Our portfolio of global distributed brands, own vertical brands, integrated digital capability, and a large store network are core assets of the group, and positions us as a company fairly well for a strong growth into the future. That concludes our presentation today, and we would be happy to take any questions.

Speaker 1:

We'll now begin the Q and A session. As a reminder, to ask a question, please select the raise hand button at the bottom of your screen to be placed in the queue. Thank you. I believe we have the first question from [Hayden Lou].

Hayden Lou:

Hi, Daniel and Matthew. Thanks for taking my question. So you clearly-

Matthew Durbin:

Hi, Hayden.

Hayden Lou:

Hello. So you clearly remained very focused on your rollout strategy during even the periods of lockdown. I'm just curious to what's been driving this accelerated rollout. It was only an August you guided 465 for

Hayden:

Five for the four year. And then that was revised to one-twenty and now over one-forty stores for the new year. So was it a deliberate strategy to accelerate the rollout or just more opportunities came up along the way?

Daniel Agostinelli:

Thanks Hayden. Well, yes, lots of opportunities are still coming our way and we can continue to work very closely with our landlords across Australia and New Zealand. We've got some great models that are still very prominent and on trend in terms of what our customers want. And we are continuing to explore and develop, in some cases, larger stores, in some cases, complete conversions from one banner to another where they make sense. And as a business, Hayden, the big drive from us is a really big review of what's really giving us the return on investment and return on equity. And that's a big, big drive for us as a business moving forward.

Hayden:

Gotcha.

Daniel Agostinelli:

Can I expand on that? I can expand a little bit on that, Hayden. To give you an example, we have a very big Platypus store at Melbourne Central here in Melbourne. It's a good store. We think it can be better and return a far higher return on investment and return on equity. So that store, as an example, will be converted to a Glue store in the next three months. They're the sorts of things we are doing internally to simply push towards where we're getting higher conversion on return on investment and return on equity.

Hayden:

Thanks. That's helpful. And just on that, in terms of Glue's store, in August you caught out online was about 20% of Blue's revenue. Now, given the lockdowns has that percentage inflated in the half, as a result of lower store sales?

Matthew Durbin:

Hayden, that's correct, indeed. That trend's been across the group. The Glue store portfolio is almost entirely located at the moment in New South Wales and Victoria in Metro. And we basically had all of the Glue stores shut for the best part of three and a half months. So, you can imagine the online on Glue is very high.

Hayden:

Yep. Because noticed you gave disclosure on Glue, which is helpful. Just trying to sort of work back to a store sales level there. Noting that online sales might be inflated, but is it fair to say that in terms of your average sales per store for Glue, that's heading back towards pre-acquisition levels. Is that sort of what you're seeing?

Matthew Durbin:

Yeah, it certainly is. We saw some very good momentum in Glue through November and December and early January, as you see was again impacted by Omnicron. Certainly as we've got into Feb, we're really pleased with how that's going. So, that's our objective is to get those stores. We've still got some work to do in those stores, particularly the legacy stores that we've acquired. And we've got a program of work over the next 12 months to go in now we've nailed our new concept for Glue to go in and refurbish those stores, bring them up to the standard that we'd expect them to be at.

Hayden:

Okay, great. Thanks both for that.

Speaker 2:

Thank you, Hayden. Our next question is from Keegan Boyce.

Keegan Boyce:

Good morning guys.

Matthew Durbin:

Hey Keegan.

Keegan Boyce:

Just first question from me, I'm just curious in how to think about Vertical Brands over the years, how we think about them just because there's been some significant growth in that channel and obviously it's a much higher margin channel. And if you think about Glue and Star Run and some of these brands that you're growing, where can we think that should roughly get to coming two or three years, please.

Daniel Agostinelli:

Keegan, it's been one of our moats for forever that we obviously will push and give our internal distributed brands best locations in our stores where possible whilst we still look after the market in terms of who we supply and so on. But indeed what's happening is that brands are simply getting stronger and stronger. And the portfolio we've put together is certainly in our view amongst the best in the world. The Reebok brand, as an example, we expect that to go across all of our banners in some manner, some far higher or far stronger, if you take Platypus and Hype and Glue, we'll see a lot of that product installs, but in all of our businesses, you'll start to see the same drive as you've seen, hopefully seen with Vans, Dr. Marten's, and Sketchers. So it's really just adding to what we've done forever, being a true omni-channel business from distribution right through to presenting it on shelves.

Matthew Durbin:

And, Keegan, if I can, I'll learn out about the sort of the full Vertical Own program that continues to be a big strategic focus. It got a lot of momentum in the first half. We're really pleased with how that's going. We did say six months ago, we thought that could get to 10% of sales over time. We're just going to keep driving that. And see where it can get to, but the margins have kept growing and we are very, very pleased with the progress there. So I think that the answer is we don't know where could get, and we kind of looked at the 10% and went, "Well, we don't know if it's 10%. We don't know if it's more." So we're just going to keep you updated as we move forward on how that's going, but there's bright momentum in the first half, and we're confident that's going to continue into the second half.

Keegan Boyce:

No, that's fantastic. And then maybe just, secondly, following on from that, just around the gross margin and how we think about phasing throughout the half. Obviously, there's a lot of lockdowns, a lot of disruption in the PCP, which makes it difficult to comment on, but how should we think about sort of your comp base, not from a sales level, from a gross margin level, a bit of the promotional activity in the PCP. And should we expect this to sort of start returning back to pre-COVID levels, plus the benefit that you've had from Vertical Brands.

Matthew Durbin:

Yeah. Look, if I think about the first eight weeks and perhaps just comment on what we've seen today in gross margin, the gross margins recovered, and it's now sitting at levels just above last year for the first eight weeks. And the nice thing is with that drive for gross margin, our comps have been flat for the last four weeks. As customers have started to come back to stores and return to more normal shopping patterns, from where I'm sitting right now, where we are sitting, there's no reason to think that can't continue through the balance of the half, assuming of course, that we stay open and there's no further massive breakouts or other variants of the virus. I hope that answers your question. So certainly currency is a little bit of a tar wind for us as we go into this second half, which we've talked about previously. So that's on our side and it's our absolute intent. Our inventory are clean and in line, it's our absolute intent to drive full price, full margin sales through this period.

Keegan Boyce:

That's very helpful. Thanks guys.

Matthew Durbin:

Thanks Keegan.

Speaker 2:

Thank you, Keegan. Our next question is from John Hind.

John Hind:

Oh, good morning, Daniel and Matthew. Thanks for taking my questions. Perhaps, could you offer some more color on trading in January, particularly in February and some insights on the youth category. What happened there and what were the key takeaways?

Matthew Durbin:

John, I might jump in on that in terms of the numbers and then throw to Daniel in terms of some of the sort of trends that we're seeing. But if you go back to last year in just more globally, almost 80% of our business deals with youth, if that makes sense. The Athlete's Foot and Sketchers also sort of range into an older customer, but the vast majority of our customers in the other banners would be described as youth.

Matthew Durbin:

Last year in January, we experienced very strong comp sales and that actually continued into early February. So one of the features of January is that we were comping a really strong comp base last year, and it was still quite buoyant as we got into February. That's why we pointed out that our comp sales against FY20 were flat even across those first eight weeks with that big impact in the first four weeks. So at a macro level, that's what's going on. And you'd say that the youth customer in the last four weeks has started to come shopping again and they're happy to pay full price. So that's how I'm seeing, I might throw to Daniel for any more color.

Daniel Agostinelli:

Yeah. Look, John. Like everyone in retail, I think, and for any of you that visit shopping centers, it's not the best experience wearing a mask. It's actually an awful experience. So pretty hard to measure anything at the moment in my view, well, particularly in the last couple of months. And it really started around that 17th, 18th of December.

Daniel Agostinelli:

So we've simply been disrupted, but amongst that what's very pleasing is that some of our distributed brands, in particular Vans and Dr. Marten's, has been very, very strong for us. So that really tells us that we're on trend, the brands we distribute are on trend, and we think that's going to continue. We definitely have had some disruption of product deliveries. Absolutely. And that could continue for some time. However, what we are receiving is seeing great percentage sell-through on those products. So that means the market's hungry for new product. Like many other retailers, the freshness that we would all want is probably not there to where we want to have it, but we are very optimistic that slowly but surely it'll all start to get back to some normal pattern where we can do what we do best.

John Hind:

Thanks. If I can just take that one step further with wholesale, obviously a strong number. And I'm wondering what's that telling you about competitor behavior and their trading through this period? Obviously not withstanding, there was some cancellations of orders, I think, on the PCP.

John Hind:

And how should we think about the second half given the recent volatility we've seen through that channel?

Matthew Durbin:

I might kick off on that one, John. So, there's a couple of things going on with the wholesale number compared to last year, just for everybody's benefit. The first is that the headline number includes the acquired businesses, which weren't in the prior year. The growth excluding that, year on year is about 17%. This time last year, we were still getting back into stocking wholesale. We canceled a lot of orders through the first round of COVID. So we were coming off what we'd consider to be a depressed sales base in wholesale last year.

Matthew Durbin:

I think what it does say is that there's certainly some optimism in the market for the coming months. And I think people have been through this tough time, but I think they feel as though they can get into stock and move forward. And that's certainly how we're seeing it. So I don't think there's anything to read into the growth in that, compared to our retail growth, to be honest, John. I really do think it's just off a disrupted base, but I think the coming period signals some optimism. I might see if Daniel has anything to add to that.

Daniel Agostinelli:

Yeah, look, I'm not sure how our competitors are trading. I assume they've been impacted somewhat as we have, but those that we do supply, which is essentially all of our competitors, they're certainly not canceling any orders with us. Indeed, we've been quite pleased. Given we sell six months out, we can see what the forward six months look like, including our own internal orders. It seems very positive. Very pleasingly for us, four key brands have been highlighted in the numbers we've just divulged there. In particular, Skechers continues to be very, very strong. Vans and Dr. Martens are just right on trend, and the fourth one, which we haven't spoken much about, but we're working very hard on with a very talented team is our Hoka brand. H-O-K-A for those of you that don't know the brand. It's the fastest growing, running brand of the world. We're very pleased to have that distribution, and the early signs, particularly in our Athlete's Foot business, are very positive, but also the market forward orders look very pleasing.

John Hind:

Great. Thanks. That's really insightful. I've just got one or two more. Would you be comfortable talking to us about Reebok? I know obviously the deal's just been agreed on, but it looks like another really attractive growth avenue for you guys. Can you help us understand perhaps some of the options that are available to you there, if you're able to?

Daniel Agostinelli:

Yeah. Look, I mean, we're very excited, as you can imagine. They did have a choice to find many distributors in this part of the world. We won that distribution with a very talented team, that's got capability to actually execute this. Right now, the brand's doing some close to that two and a half, $3 billion worldwide. They're calling out that they're going to grow into a $5 billion brand. We believe that. There's lots and lots of heat and momentum around the brand worldwide. We're already seeing our own stores, even though we're buying it from third party at the moment, seeing very, very strong sales come from that brand, particularly in our Glue, well, indeed all of our banners are experiencing solid growth with that brand. We don't officially take over till May 01, but we have a team that we've assembled, led by a pretty strong, capable head of brand.

Daniel Agostinelli:

And we simply believe that this brand will be very solid within our business, across the board, but also to those that we supply, I think it's a brand they're going to want to carry and have in their mix. Certainly the requests coming in, even though early days, from many of the big players around Australia and New Zealand is very strong. But you just need to look on their websites and see the sort of stuff they're doing. They're right on trend, and we believe, assuming we execute this, that there's great growth that'll come from this brand.

John Hind:

Yeah. So to give us an example, I mean, can we start to see this as like a Vans or a Dr. Marten's offering? I'm assuming you don't expect it to be substantial as Skechers is.

Daniel Agostinelli:

Yeah, no, that would be a fair comment. If you look at just the general size of that brand and the heat and momentum behind it, you'd have to assume that it'll be as good as a Vans, certainly bigger than a Dr. Martens, but the beast and powerhouse of Skechers will be a hard slog, I'd say. Skechers is just too strong.

John Hind:

Yeah, that's right. That's right. Last one for me, and then I'll jump back into the queue. You mentioned, Matthew, that you guys are happy with your Glue concept now. I've been out seeing a couple of stores and they look great and a big improvement to what they were previously. Can you give us some color in your minds, how are you going to be different to peers with this offering? And a little bit more color on what is the concept you're trying to bring to your consumer base?

Matthew Durbin:

I might throw to Daniel on that. He's the brains behind that one.

Daniel Agostinelli:

Well, John, I'm happy you're seeing the changes. We've certainly got a lot more work to do. What's very pleasing is that we've opened five stores and in some big shopping centers. If you take our Highpoint store down here in Melbourne, which is a premier shopping center, we're very, very pleased on the numbers coming from that store, including its margins. And the differentiation on what we bring to market is that we're a house of brands and we've got the biggest brands of the world in our mix. More

and more of them are coming our way, wanting to get into those stores. But also, we've got some great capability in that business, which is very, very pleasing. It's part of the acquisition there. We've got just the most amazing, talented team in there that can actually make and produce product, which is vertical.

Daniel Agostinelli:

And I talk about brands like Nude Lucy. There's a brand we have called Article One for men's, very, very strong. So, we're developing this capability, which we think is going to be very strong within that Glue business, and indeed those we wholesale. But the most important vote is coming from the customer, particularly with those brands, and amongst the house of brands of the world, we will do our vertical mix, which is a very strong percentage of overall sales.

Daniel Agostinelli:

But most importantly, John, when you put a new concept together, it's nail biting time because we all think it looks terrific, but what does the customer think? That's all we care about. And in the five stores to date, we're very pleased with the ROIs coming out of that effort.

John Hind:

Great. That's very helpful. Thanks Daniel and Matthew.

Matthew Durbin:

Thanks John.

Speaker 3:

Thank you, John. Sam Teeger, please go ahead.

Sam Teeger:

Oh, thanks very much. Hi, Daniel. Hi, Matt.

Matthew Durbin:

Hey, Sam.

Daniel Agostinelli:

Hey, mate.

Sam Teeger:

Just wondering, you know the delivery delays that you are flagging, what do you anticipate that impact the second half sales to be from them?

Matthew Durbin:

Sam, that's a good question. We haven't called out what we think that will be. Perhaps one of the ways to think about the question is we're seeing delays in some of our external brands, and figures of 20% in a selected number of those external brands of delays and cancellations. Those external brands represent a smaller and smaller portion as we move forward. But perhaps that's how to think about it. Sometimes you get the demand there, you can do the sales with less stock. So, it's a little bit of how long is a piece

of string on that one. But if you think about it as 20% cancellations or delays across a couple of selected external brands.

Daniel Agostinelli:

I think I can add a little bit to that, Sam. Pleasingly for us, if you take our Skechers business, we're certainly not a hundred percent fully stocked, but it's fast getting there. They've done a great job to get us back into stock. That's the one that really matters the most to me in particular. And there's enough there for our team to say, we haven't missed budget because we haven't got the stock. I mean, that's the drive I've got with the management team. But, to your point, who knows what's going to happen there. But the CEOs of the big brands I talk to, consistently tell me that it's starting to come good. That's as far as they'll go, and I don't think we can elaborate any further because we simply don't know.

Sam Teeger:

Right. And when you walk around the CBDs and shopping centers, and have a look at some of your competitor stores are you seeing them able to secure some of this stock?

Daniel Agostinelli:

No, at least, I haven't been in the back rooms and all that sort of stuff of competitors, but just looking on what's on their shelves, it seems to be as disrupted as we are. Sure, there's some brands that they may have a bit more of, but in the main they're disrupted as much as we are, I would say.

Sam Teeger:

Okay, makes sense. How many stores have you opened net in January and February to date?

Matthew Durbin:

I don't have that number to hand. Daniel, you might have [crosstalk].

Daniel Agostinelli:

Look mate. It's really a handful. You're talking three or four. But typically, shop fitters are on leave in the January month. We also don't want any disruption to that particular month. In March, I think we have

Daniel Agostinelli:

... eight stores to open across the business and it hots up from there further, right up until June 30. And that includes some refits, which we don't count as a new store, but it takes the same effort in terms of refitting.

Speaker 4:

Understand. Thanks guys. Appreciate it.

Matthew Durbin:

Thanks, Sam.

Speaker 5:

Thank you, Sam. Next question is from John Price.

John Price:

Yeah. Hi. Yeah, no great presentation. Thanks, Daniel and Matthew. I'm from Teaminvest and I'd say most of our members all own shares in Accent Group, and we've been very happy with that over the years and something that we... I like your reference to your company as talking about as a house of brands. I think that captures that very well. But just what would you consider as your strongest economic moats?

Matthew Durbin:

Yeah. Good, good question, John. I might jump in there and we alluded to them in the back end of the release, our distributed brand relationships no question are moats in this country. And if you look at the biggest of those sketches, that's an agreement that we extended early out till 2032. It's one of the big brands of the world. The fact that we've now secured Reebok within that and Dr. Martens and Vans are also very strong. We've got Hoka as well, Hoka.

Matthew Durbin:

That portfolio just continues to get stronger on long term deals. I'd say that's one. I think our store network and a 700 store network is not easy to create. It's not easy to replicate. And in an age of digital and omnichannel, that gives us a very direct line of access to our customers to deliver from the store and get product to them quickly. There I would say are two of our strongest. Might throw to Daniel because he'll have some thoughts on this as well.

Daniel Agostinelli:

Yeah. Look, I think John, one of the things that we are pushing as a business, and it's certainly in the moat bucket, is the fact that we are fast moving deeper and deeper into being a pure omnichannel business, which we think is very important moving forward. You've got distribution, you've got retail, you've got a very capable digital business.

Daniel Agostinelli:

And the fact that you can get products semi vertical, if you'll call it, because they are distributed brands, but certainly higher margins on that product, allows the to have a bit of a moat. If you go into any of our stores, it's no secret of why you will see brands like Vans, Dr. Martens, and the likes called out. They are our moats.

Daniel Agostinelli:

Most importantly, though, John, we start with one thing, what does the customer want? That's the main, regardless of margin, regardless of what we are trying to do to beef up our profits. We always start with what does the customer want? And that's a big, big driver moving forward. And we are very, very entrenched in product, product, product, regardless of where that margin lands. Have we got world class product?

Daniel Agostinelli:

In our semi -distributed brands, which we call in-house brands, that they are distributed, but we certainly feel that they are the most on trend around the world. And you can just look at what's happening around the world with some of those brands. But indeed, if you take a look at some of our products that we are making from scratch, where it's 100% vertical, we would say that we're up there

with the best in terms of where it's going, but we certainly wouldn't call out that we feel we're 100%. But we are fast getting capability in all of our vertical businesses to really play on that. Do we have a world class product which will end up being a moat?

John Price:

Okay, thank you.

Matthew Durbin:

Thanks, John.

Speaker 5:

Thank you, John. Bruce Carmichael, please go ahead.

Bruce Carmichael:

Good morning, Daniel and Matthew. Sorry. I just had to unmute there. I'm Bruce Carmichael. I'm also from Teaminvest, so good morning. To date your growth strategy seems to be mainly organic growth and it's pretty impressive, but looking out over the next five to seven years or so, when do you think that you might be running out of runway for your organic growth and you may then have to consider perhaps strategic acquisitions or even perhaps other markets in other countries?

Daniel Agostinelli:

Bruce, good question. It's one that we obviously strategize internally. We feel we've got good capability internally towards growing businesses organically. Some of the businesses we think have still got a lot of growth. Particularly we feel our Platypus business can certainly grow into areas that we'd never imagined only five years ago.

Daniel Agostinelli:

And by that, I mean, areas like call it B and C grade shopping centers around Australia and smaller towns. We're actually doing very, very well when it comes to what we invest and what we get as a return. One of the big pushes for us, as I've mentioned, is the return on equity and return on investment. That is a big, big drive internally at the moment. And the moment you have an acquisition, you end up with a goodwill on your balance sheet and your ROE goes down.

Daniel Agostinelli:

We would prefer to spend that money on organic growth and new businesses. And even at the cost of a business failing whilst it's small, to simply convert and put that money wherever that bullet may be going. But that is the overall drive of what we are doing as a business internally. Not to say that our acquisition-

Bruce Carmichael:

Look, thank you for that. That is actually where I was coming from, because when you make an acquisition with all the goodwill, it slows down on your return on equity, definitely. And you guys have an amazingly high marginal return on equity, which means that you can grow the business very, very quickly from where you are without having to hold out your hat for shareholders funds or raising more debt.

Daniel Agostinelli:

Well, yes. The big word for us there is, Bruce, execution and continuing to invest in that backend, which is all important as a foundation to what we would like to do. But in terms of growth, if you take the Glue business, well, we're not even in Adelaide at the moment. We're not in Perth, we're not in New Zealand. In Queensland, in the Main, I think we got one store.

Daniel Agostinelli:

We see a lot of growth in the current businesses. And sometimes less is more. That will be a bit of a push, really have a review of the overall business and say, "Line in the sand. What's working? What's not? Convert to..." If something's getting an okay ROI, I certainly don't want to be in the average bucket. I would prefer to make a move and move it into the high return on investment bucket. And they're the sort of things that we will do over the next 12, 18 months.

Bruce Carmichael:

Good. Thank you very much.

Speaker 5:

Thank you, Bruce. We currently have no more questions in the queue. As a reminder, to ask a question, please select the raise button at the bottom of the Zoom interface. Peter [Storer], please go ahead.

Peter Storer:

Thank you for taking my question, Daniel and Matthew, I just wanted to refer to the balance sheet. We've got a current ratio of only 1.15 at the moment. So we've taken quite a hit, I think, not just on the P&L this half, but also on the balance sheet. But also, the borrowings have gone up 2.5 fold and giving us a gearing of about 20%. Can you give us an idea of where you sit with borrowings? Is that going to be a priority to pay that down, or are you comfortable with the current level of borrowing?

Matthew Durbin:

Yeah, that's a good question. Thank you. We took out a new debt facility. We can put in a new debt facility in around November last year. That increased our total facilities to around $300 million. As at the end of a half year, we were drawn about $91 million in net debt.

Matthew Durbin:

Previously we've been at around 40 million, that higher level of debt we would anticipate to have over the next 12 to 18 months. We've called out acceleration of growth strategies, new stores, the work that we want to do in Glue, the work that we want to do in Stylerunner. And I think in the short to medium term, that's going to result in a higher leverage ratio. Certainly, we don't think a 0.8 leverage ratio is anything to be concerned about.

Matthew Durbin:

I would say right now, we're very comfortable with our levels of debt. They're absolutely in line with where we projected them to be. And we've got heaps and heaps of head room, if we need it, against any shocks. I hope that answers the question for you.

Peter Storer:
Yes, it does. Thank you.

Matthew Durbin:
Thank you.