

Bullish RCG Corporation chief puts himself in buyers' shoes

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IVAN Hammerschlag is bullish on RCG Corporation, which operates The Athlete's Foot shoe superstores and wholesale shoe brands such as Merrell.

RCG has just produced interim tax-paid earnings of \$3.9 million on \$99 million of its own and franchised sales, up 35 per cent and 19 per cent respectively.

Hammerschlag forecasts full-year earnings of \$8.4 million to \$8.8 million - up to 28 per cent up on 2010.

But that earnings number will be left in the shade if his five-year goal is achieved. "We've got a long journey," he says. "We've been at it for four years since we took over and we've not even halfway, but we're working very hard."

The five-year aim is for the group's retail and wholesale businesses to each produce earnings before interest and tax of \$20 million. If achieved, tax-paid earnings will increase at 26 per cent compound a year.

Hammerschlag says: "The Athlete's Foot is a wonderful business. It will continue to grow, but we've now got our wholesale division and also the new shoe superstore chain. There's a good story here."

He says that when times get tough people go to brands they can trust.

"And really shoes are a necessary purchase and people continue to buy. Internationally, footwear has not come off like everything else has."

He puts the company's sales performance down to very high customer service levels, which he sums up as "function and fit".

Asked why anyone would go to Athlete's Foot or his fast-expanding superstores rather than Kmart, he rephrases the question. "Kmart is really the bottom end in terms of price. The question is, why would someone come to Athlete's Foot rather than go to Rebel Sport or the department stores?"

"The answer is that our sales people are highly trained in terms of fitting the shoes, ensuring that you get the right athletic or walking shoe for the way you walk."

At December 26, RCG had \$17 million in cash. "We've still got a lot of cash on our balance sheet and if we invest cleverly we'll continue to improve our returns."

Growth comes at a price: at 69¢ a share, RCG is valued at \$164 million - more than 18 times estimated 2011 earnings.