

24 February 2017

ASX/Media Announcement

Super Retail Group reports half year results

Super Retail Group Limited (ASX:SUL) today announced net profit after tax attributable to owners for the 26 week period to 31 December 2016 of \$74.4 million which was 65.7 per cent higher than the prior comparative period.

Key features of the result include:

- Normalised net profit after tax increased by 26.3 per cent, after adjusting for brand name impairment incurred in the prior comparative period
- Half year sales for the Group increased by 6.6 per cent to \$1.3 billion and like for like (LFL) sales increased by 5 per cent
- Group's Segment Earnings Before Interest and Tax (EBIT) at \$115.2 million, an increase of 23.7 per cent
- Auto and Sports Divisions continue to perform strongly with Segment EBIT growth of 10.1 per cent and 19.5 per cent respectively
- Leisure Division reinvigoration beginning to deliver stronger results with Segment EBIT growth of 53.7 per cent
- Operating cash flow of \$252.0 million up by \$75.0 million
- \$48.7 million invested in new and refurbished stores
- Interim Dividend of 21.5 cents representing an increase of 7.5 per cent

It should be noted that the Group's results are for the 26 weeks to 31 December 2016, while the prior comparative period results were for the 26 weeks to 26 December 2015. As a result, timing benefits contributed circa \$28 million to sales, circa \$7 million to EBIT and circa \$45 million to operating cash flow compared to the prior comparative period. Sales and EBIT timing benefits will reverse in the second half of the financial year.

Super Retail Group Managing Director and Chief Executive Officer, Mr Peter Birtles, said he was pleased to report the Group had returned to generating robust underlying earnings growth with each of the Group's three divisions delivering strong sales and profit growth.

"These results build on the momentum that we established in the second half of the 2016 financial year. We continue to make good progress on the key initiatives outlined in the plan we implemented in May 2015 to lift both compound annual earnings per share growth and return on capital back above 15 per cent. The restructuring undertaken in the 2015 and 2016 financial years is delivering a positive outcome with a much improved performance from the Leisure Division and the elimination of loss making businesses within the Sports Division," Mr Birtles said.

"The Auto and Sports divisions both continue to perform well, delivering solid like for like sales growth and lifting EBIT margin. The Leisure Division generated solid like for like sales growth and a big step up in EBIT, reflecting the good performance of the BCF business and the benefits of the transformation of the Rays business."

"Our underlying operating cash flow continues to be strong, allowing us to invest both in growing our businesses, as well as significantly reducing net debt."

"Key measures that drive long term performance continue to trend in the right direction, and we have seen further improvement in customer traffic and endorsement, as well as team member safety, across the Group. We continue to generate strong growth in website traffic and digital sales, and our Group Supply Chain team are delivering the expected efficiency savings in our logistics operations."

"As we move into the second half of the year, we have a clear focus on two overriding priorities, capitalising on the growth potential of our portfolio of market-leading retail businesses and building the capabilities required to offer our customers an integrated omni-retail experience, encompassing community, product, information, services, solutions and entertainment."

AUTO RETAILING

Sales increased by 6.9 per cent to \$489.2 million with like for like sales growth of 3.7 per cent, driven in particular by growth in transaction numbers and average item value. Digital sales increased by 48 per cent on the previous corresponding period, driven by strong customer engagement with the brand's 90 minute 'click and collect' offering.

Sales growth was strong in the Auto Accessories and Auto Maintenance categories, however overall like for like growth was impacted by lower growth in the Tools categories. Tools sales were impacted for a period of around 10 weeks during the middle of the half by competitor clearance activity, but strengthened towards the end of the half.

EBIT grew by 10.1 per cent to \$53.6 million, with the EBIT margin increasing by 0.4 per cent. This was driven by cost efficiencies, particularly in supply chain, and merchandising initiatives to offset the impact of the weaker Australian dollar.

The brand's loyalty programs also continue to grow, with active Club Plus members now numbering over 1.3 million customers.

During the reporting period, the Division opened seven new stores, closed two stores, and refurbished 14 others, including three super stores, resulting in 312 stores at period end.

LEISURE RETAILING

Total sales grew by 2.9 per cent to \$311.0 million, with like for like sales growth of 5.8 per cent. BCF like for like sales growth was 3.6 per cent post the closure of Ray's Outdoors, strengthening as the half progressed.

The sales performance of the Division was impacted by the clearance activity in Ray's Outdoors during the first half. This had the impact of dampening BCF like for like sales growth, while boosting Ray's Outdoors sales growth during the period. Digital sales growth in the Division more than doubled over the half.

EBIT was \$20.6 million which was 53.7 per cent above the prior comparative period. Divisional EBIT margin lifted to 6.6 per cent. This improvement was driven by an increase in BCF gross margin and the closure of loss making Ray's Outdoors stores.

BCF enjoyed a successful Christmas trading period following the changes made to its pricing and promotion strategies in the second half of the 2016 financial year, with growth in the family camping segment particularly strong. The strong growth in camping products more than compensated for lower growth in fishing products as a consequence of the poor fishing conditions that prevailed for much of the half. The changes to pricing and promotion strategies were the key driver of the improvement in gross margin.

The new format Rays stores show promising early signs, although overall comparative performance continues to be impacted by changes to product mix and the clearance activity in the closed Ray's Outdoors stores. The new format stores are attracting higher numbers of target customers, with spend increasing both in-store and on-line.

The business has generated solid growth in its core categories of hiking and adventure camping in both hard and soft goods. The uplift in performance has been stronger in stores located in the southern states.

Further improvements to the product range will be introduced in advance of the winter season, which will be the first opportunity to present the complete Rays offer and so fully assess the growth and market potential of the new Rays business.

Two BCF stores were opened and eleven Ray's Outdoors stores were converted to BCF during the period. Twenty Ray's Outdoors stores were closed, six have been or will be converted to Amart Sports and Supercheap Auto. At period end, there are 133 BCF stores and 17 Rays stores.

SPORTS RETAILING

Total divisional sales grew by 8.5 per cent to \$490.5 million while total divisional EBIT grew by 19.5 per cent to \$50.9 million.

Like for like sales growth continued to be strong in the Rebel and Amart Sports businesses, reaching 6.0 per cent for the last three comparative periods. This growth continues to be

driven by increases in both transaction and average transaction value growth. Each major product category generated solid growth with particularly strong growth in apparel. Digital sales increased by 73 per cent over the prior comparative period.

The strong sales growth was supported with further improvement in gross margin and a reduction in operating costs as a percentage of sales.

The restructuring and integration of the Infinite Retail business was progressed in line with our target of achieving break even during the period.

During the period, two Rebel and one Amart Sports stores were opened, three Amart Sports stores were converted from Ray's Outdoors and two Rebel stores were closed. There are 101 Rebel and 64 Amart Sports stores at period end.

GROUP AND UNALLOCATED

Group costs at \$9.9 million were \$1.7 million lower than the prior comparative period.

Group costs include corporate activities, un-utilised distribution centre space and investment in the Group's digital initiatives. The costs associated with un-utilised distribution centre space have been reduced by \$2.0 million compared to the prior comparative period, and will be progressively eliminated over time by business growth or exiting surplus space.

Investment in the Group's digital initiatives of a further \$2.7 million (\$3.4 million in the prior comparative period) have been expensed rather than capitalised due to the early development phases of these projects and the lack of certainty around the future returns.

CASH FLOW AND NET DEBT

Operating cash flow pre store investment at \$273.8 million was \$76.6 million higher than the prior comparative period. After adjusting for timing benefits, the underlying cash flow improvement was \$31.6 million.

The Group's strong underlying operating cash flow performance has funded investment in new stores and operational capital expenditures, with new and refurbished store investment of \$48.7 million. The Group continues to generate strong returns from its store refurbishment activity in the Auto and Sports Divisions. The Group invested a further \$15.4 million in general capital expenditure projects, predominantly in information technology.

Inventory management has been strong with the Group reducing average inventory per store investment by 3 per cent compared to the prior comparative period, despite the significant increase in purchase costs resulting from the weakening of the Australian dollar.

Closing net debt of \$242.9 million was \$54.3 million lower than the prior comparative period, benefitting from the Group's strong operating cash flow management and timing benefits.

SECOND HALF TRADING UPDATE

The Group has had a solid start to the second half with each Division delivering positive like for like sales growth.

Like for like sales growth has been circa 4 per cent in Auto, circa 9 per cent in Leisure and circa 2 per cent in Sports for the first seven weeks of the second half of the year.

Commenting on the second half trading update, Mr Birtles said that the performance of the Leisure Division is particularly pleasing, given it is cycling strong comparative sales growth, which was driven by low margin clearance activity. The slower growth in the Sports Division was predominantly impacted by promotional timing, and this is expected to improve as the business launches its new season football offer.

Mr Birtles said that the Group was planning to open around 12 new stores across the Group in the second half, adding:

“Through leveraging the combined strength and synergies offered through our Group structure, we are confident that we will be able to deliver continued sales growth across all brands, with improvements in profitability driven by investment in new and refurbished stores, omni retail capabilities, and supply chain and operating model efficiencies.

“The macro trend towards solutions and services continue to reinforce our strong market position and leave us well-placed to capture the revenue, customer and margin growth offered by the shift from products towards the solutions-centric offering that’s already well underway across the Group’s unique portfolio of iconic leisure brands.”

ENDS

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Peter Birtles and David Burns will be presenting the results by teleconference today at 10.00am (Australian daylight saving time). To listen to this presentation, please visit the Super Retail Group corporate website: <http://www.superretailgroup.com.au/investors-and-media/video-and-audio/>

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