



Strategy Update

Peter Birtles | Group Managing Director and Chief Executive Officer

Morgan Stanley 2017 Australian Emerging Companies Conference
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Key Messages



Super Retail Group has been anticipating market disruption for a number of years and its strategy positions the Group for continued growth despite the anticipated disruption



Our analysis concludes that the market disruption will not be as detrimental to Super Retail Group as implied by some market commentary and the recent share price fall



Super Retail Group's businesses are strong and well positioned to respond to disruption but we are also working on a number of initiatives to invest back into the customer offer and to deliver sales and profit growth

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Strategic context

Forces
impacting
retail

Global
Competitors

Digitalisation

Increasing
Customer
Power

Evolving
Business
Models

Changing
Workforce

Implications
for Super
Retail Group

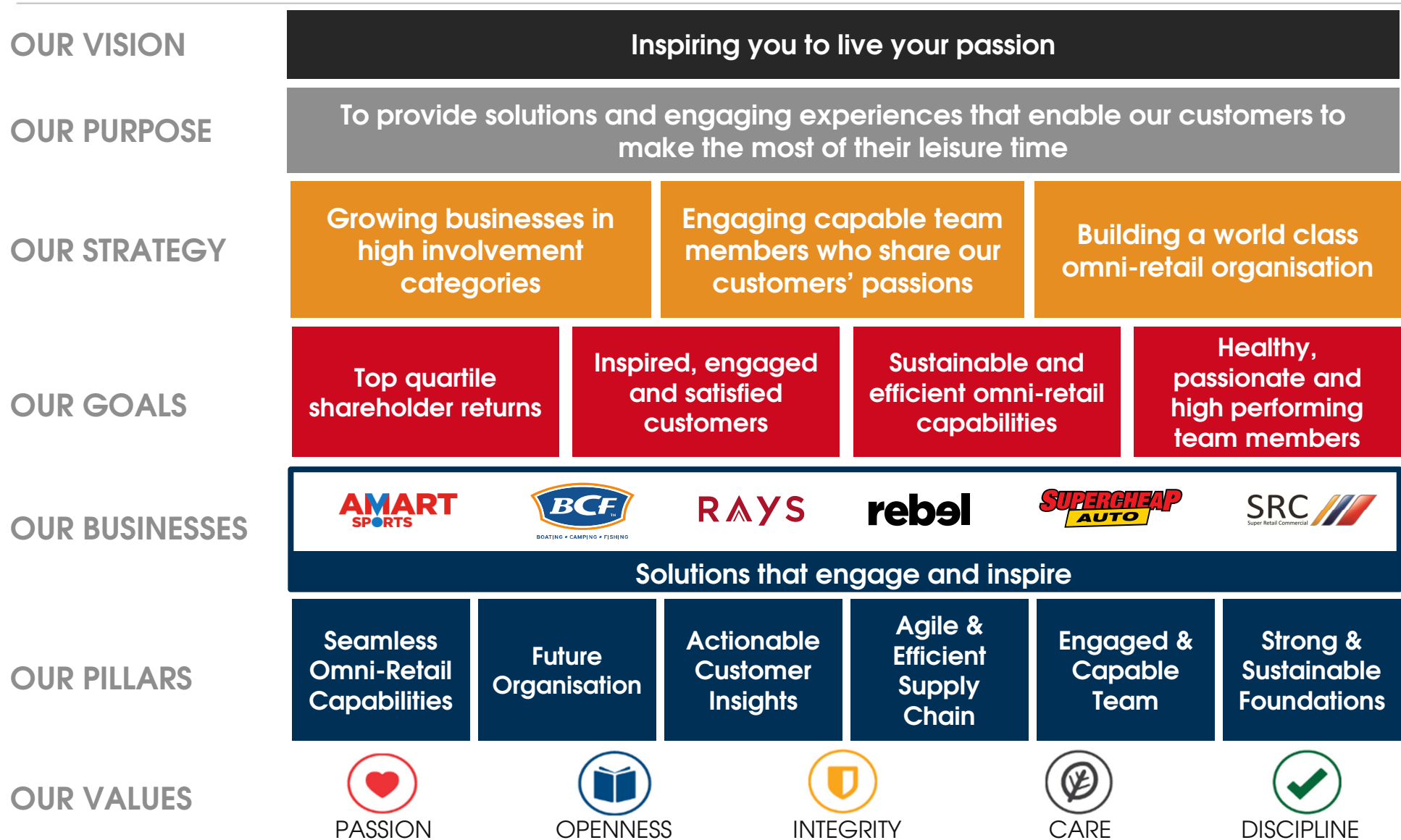
Historical levers of differentiation (range and price) will no longer be enough

Building a stronger emotional connection with customers is critical – built around their passions for their leisure activities

We have a significant advantage through connecting our customers with our team members who share their passions

Organisational capabilities have to be World-Class not Australasian class

Group strategy on a page



Our businesses deliver solutions that engage and inspire



Participating in high involvement categories mean that we can win by connecting with and inspiring our customers around their passions by providing solutions and engaging experiences not just product and price transactions

*Our focus is on helping our customer catch the fish they've always wanted to...
...not just to sell them the fishing rod.*

Allowing our customers to shop their way by integrating our web business with our extensive network of conveniently located stores is a major competitive advantage

Our businesses deliver solutions that engage and inspire

CREATING UNIQUE RETAIL EXPERIENCES

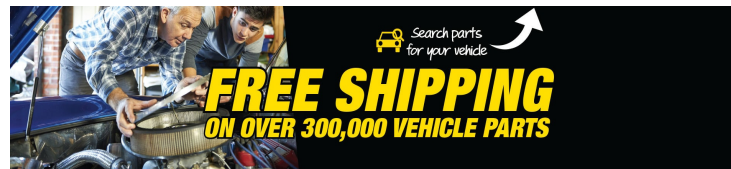
Rebel Accelerate stores



Supercheap Auto
Vision store



New Rays format



Buy online & pickup instore

BUILDING LONG TERM VALUE ADDED RELATIONSHIPS WITH OUR CUSTOMERS

Amart – Community Kick-
backs



Supercheap Auto – 'We'll fit
it for you', AutoGuru



BCF – Fisho App, 'How To'
YouTube channel



Factors underpinning confidence in our strategy

Customer Needs and Wants	Customers in the Auto, Leisure, Sports categories want more than range, price and convenience	Customers want community, expertise, inspiration, innovation and solution
Customer Buying Activity	Customers want to shop in the manner that's most convenient to them at the time	Click and collect presents a significant opportunity and is already over 50% of on-line sales
Product Characteristics	Many of the top selling products in our categories have supply chain challenges	Chemicals, Lead Batteries, Bulky, Ugly and Fragile items require special handling
International Peers	The market leading retailers in our categories in the US, Canada and UK have continued to grow	Their performance provides confidence that Super Retail's margin targets are achievable
Brand Strength	Our businesses have sizeable club membership and their web traffic is significantly higher than competitors	We are best placed to transition to the new competitive environment
Improvement Opportunities	Super Retail has a significant program of business improvement initiatives	The benefits of the program can be reinvested into competitive pricing and to growing our businesses

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Hitwise analysis highlights higher risk to other categories

US Internet Users purchasing off Amazon.com			UK Internet Users purchasing off Amazon.co.uk			Australian Internet Users purchasing off Amazon.com		
1	Kindle Edition	9%	1	Electronics	7%	1	Kindle Edition	50%
2	Health and Beauty	6%	2	Health and Beauty	6%	2	Paperback Books	9%
3	Electronics	3%	3	Kitchen & Home	6%	3	Hardback Books	6%
4	Kitchen & Home	3%	4	Paperback Books	5%	4	Toys	5%
5	Grocery	2%	5	Office Products	3%	5	Personal Computers	3%
6	Personal Computers	2%	6	Toys	3%	6	Electronics	3%
7	Office Products	2%	7	DVD	2%	7	Health and Beauty	2%
8	Wireless Phone Accessories	2%	8	Accessory	2%	8	Apparel	2%
9	Paperback Books	2%	9	Apparel	2%	9	DVD	2%
10	Tools & Home Improvement	1%	10	Grocery	2%	10	Kitchen & Home	2%

Source : The Impact of Amazon in Australia - Hitwise Retail Analytics, March 2017

Based on this research: -

- Auto, Sports and Leisure category spend estimated to be circa 2% of Amazon sales
- If Amazon achieve sales of \$10 to \$15 billion in Australia, the spend on the Auto, Sports and Leisure categories will be circa \$200 to \$300 million
- This represents market share of circa 2 to 3 % of the combined Auto, Leisure and Sports markets

Amazon range and price comparison in our categories

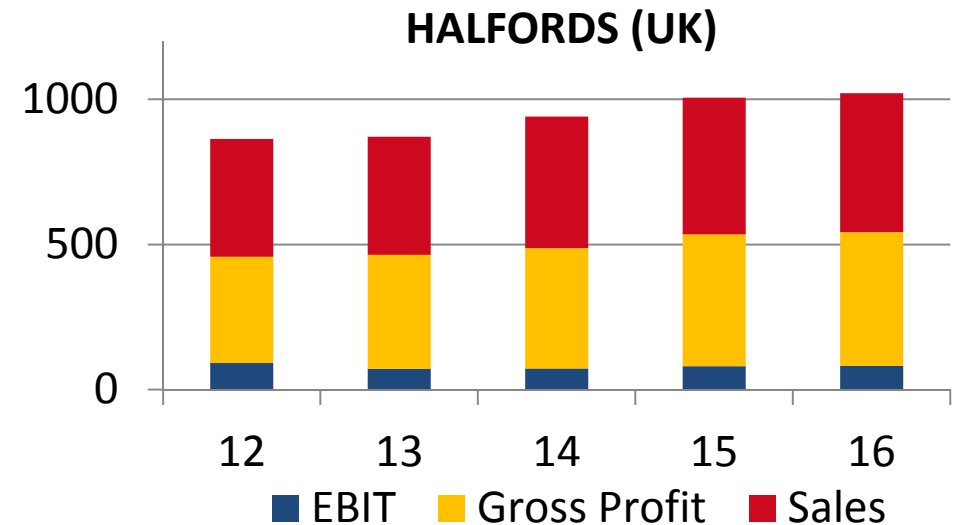
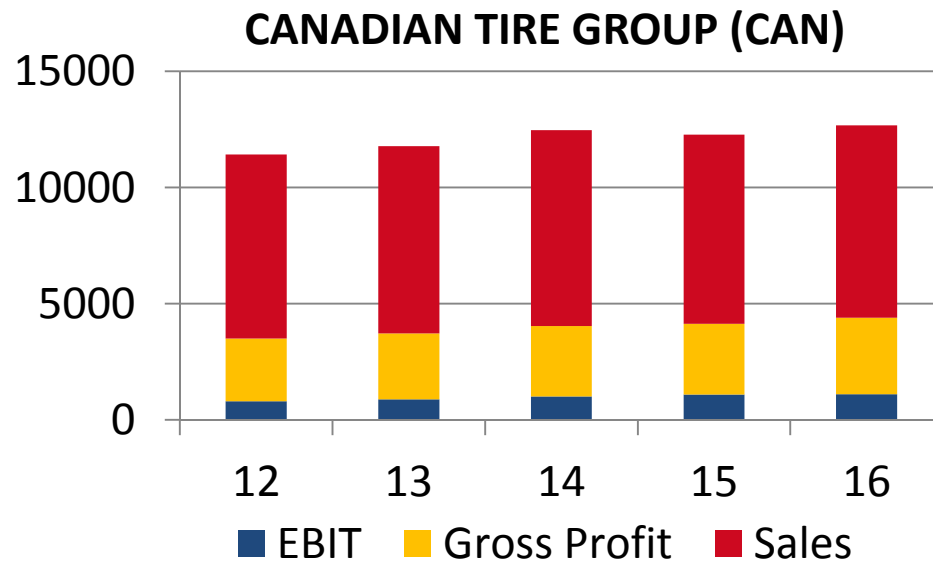
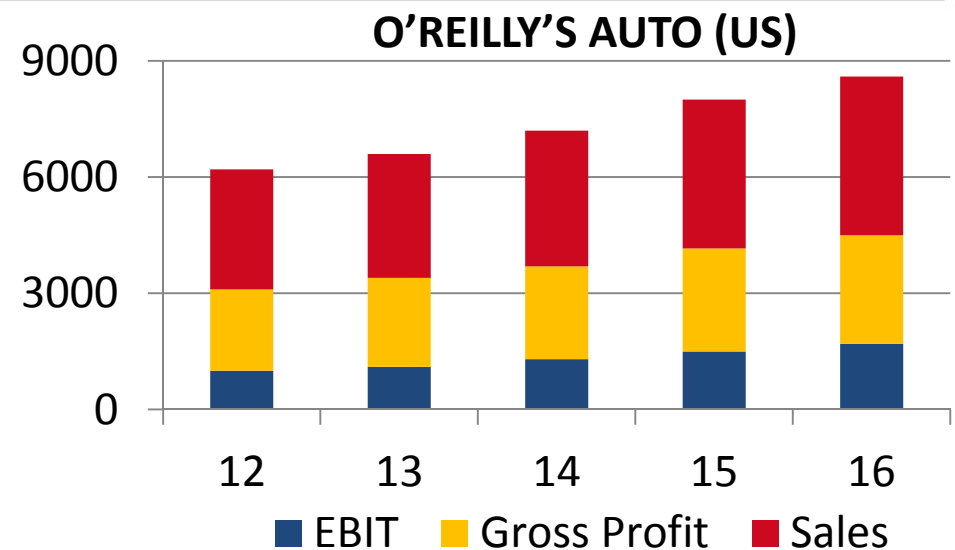
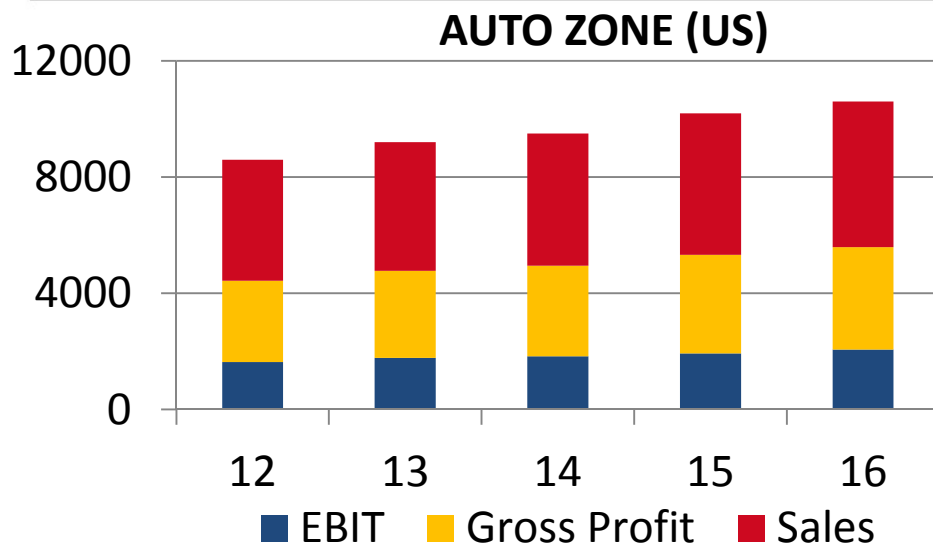
Comparison of Top 100 selling lines in SRG Divisions					
		Item count – Amazon cheaper	Item count – SRG cheaper	Item count – Not available	Basket RRP comparison *
Auto	Amazon US	27	18	55	Amazon and SCA equivalent
Leisure	Amazon US	28	28	44	Leisure circa 5% cheaper
Sports	Amazon US	42	36	22	Amazon circa 3% cheaper (excluding fitness equipment)

- After adjusting for indirect taxes

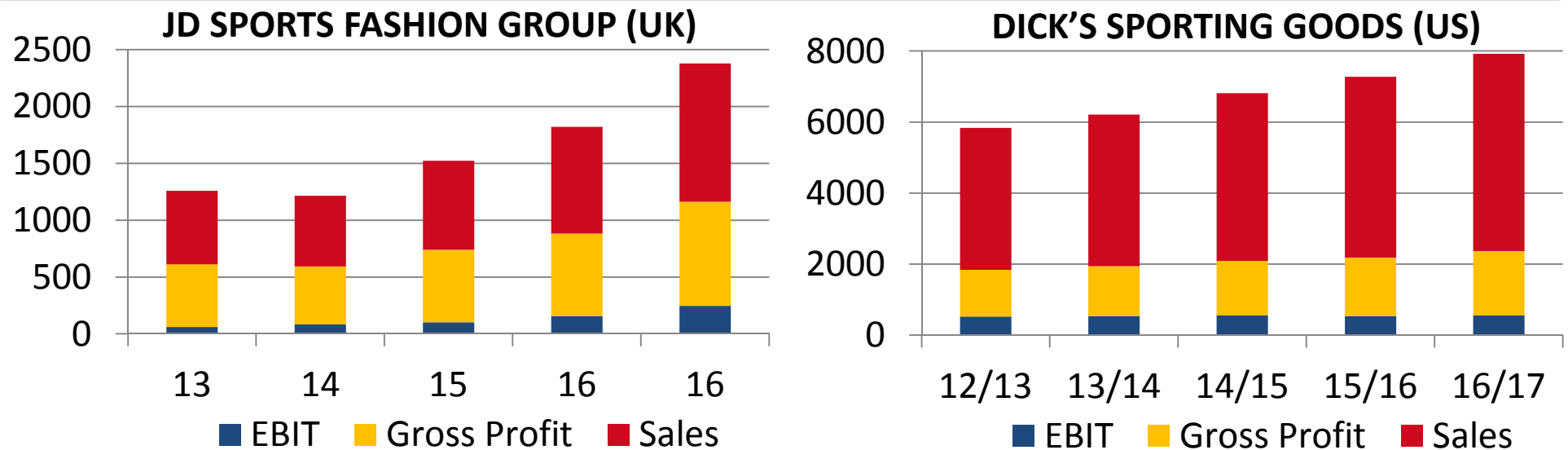
SRG's average actual selling prices after promotion are significantly below RRP

Analysis has highlighted significant variances at a product and brand level – SRG is in discussions with trade partners for whom Amazon prices are significantly below SRG prices

International peers have continued to grow



International peers have continued to grow



	Auto Zone	O'Reillys	Canadian Tire	Halfords	JD Sports	Dick's Sporting
Sales growth over last 4 years	23%	39%	11%	18%	89%	36%
Operating Profit growth over last 4 years	26%	70%	38%	(12%) *	90%	5%
Gross margin growth over last 4 years	YES	YES	YES	YES	YES	NO

* 13% growth in profit over the last 3 years following operational issues encountered in 2011 and 2012

International peers margin structures

The performance of our international peers in maintaining and growing operating margins despite competitive challenges provides confidence that Super Retail Group's margin targets are achievable

	Auto Zone	O'Reillys	Canadian Tire	Halfords	JD Sports	Dick's Sporting
Segment	Auto	Auto	Auto Sports Leisure General Merchandise	Auto Bikes	Sports Leisure	Sports Leisure
Last reported annual operating margin	19.4% *	19.8% *	8.7%	8.0% **	10.3%	6.9%

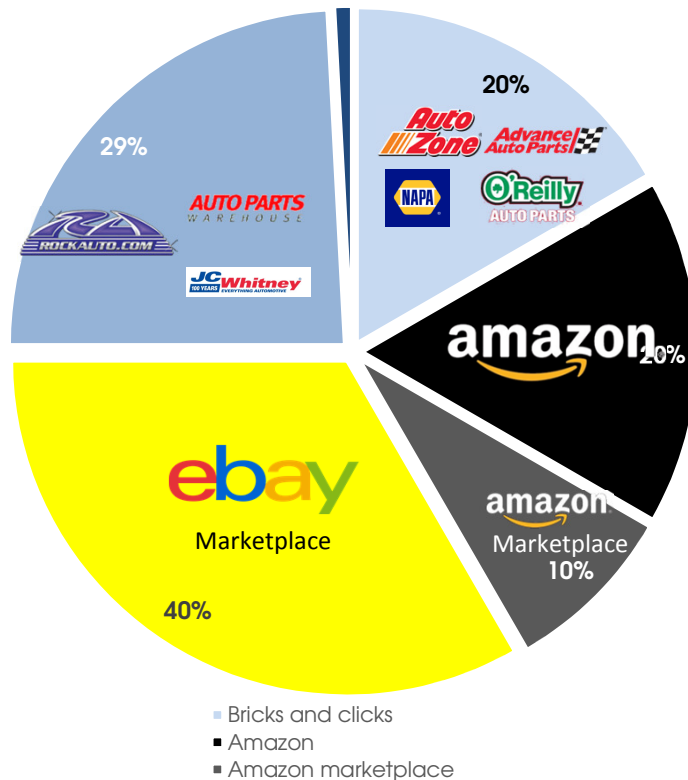
* Auto Zone and O'Reillys own a significant proportion of their stores

** Halfords includes car servicing

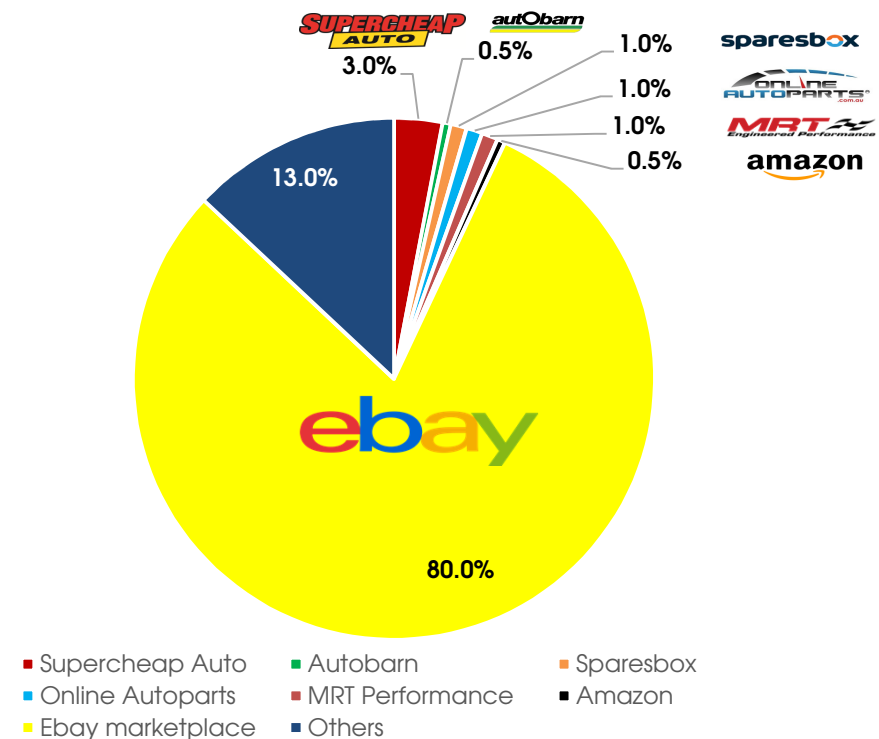
International peers have built online market share

Australians are already buying on-line. Automotive sales are estimated to be circa \$800 million. Amazon's initial market share will likely come from existing online businesses. Traditional retailers have the opportunity to build online market share

US Auto Aftermarket Online



Australian Auto Aftermarket Online



investors.com/research/industry-snapshot/is-amazon-a-threat-to-auto-parts-retailers-like-autozone/
msn.com/en-us/money/news/ebay-and-amazon-dominate-the-diy-auto-retail-market/ar-AAIt0aa
hedgescompany.com/blog/2017/02/auto-parts-industry-trends-online-parts-sales-8-9-billion-2017/

IBISWorld Industry Report OD4165, Online Automotive Parts and Accessories Sales in Australia, 2016
 IBISWorld Industry Report G3921 Motor Vehicle Parts Retailing in Australia, 2016
 eBay category information and market estimates, 2015

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Our businesses lead their markets in engaging customers



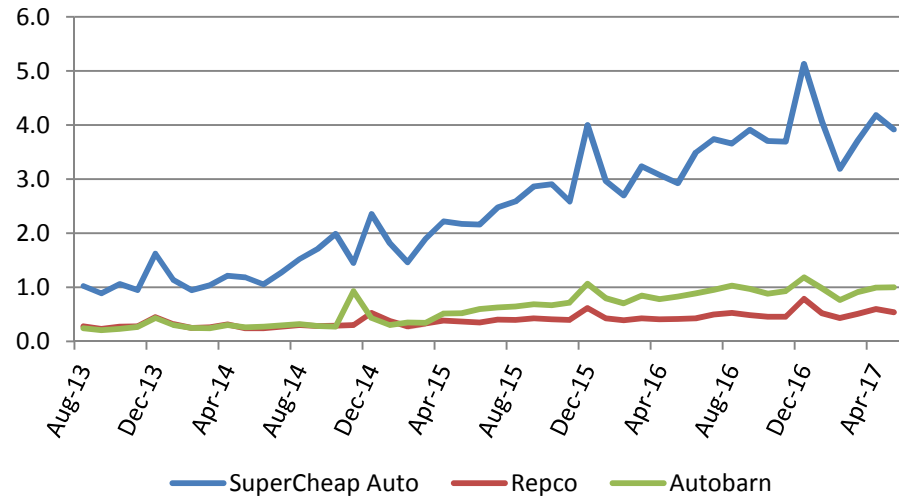
1.3 million active club members

Total unprompted awareness – 70%

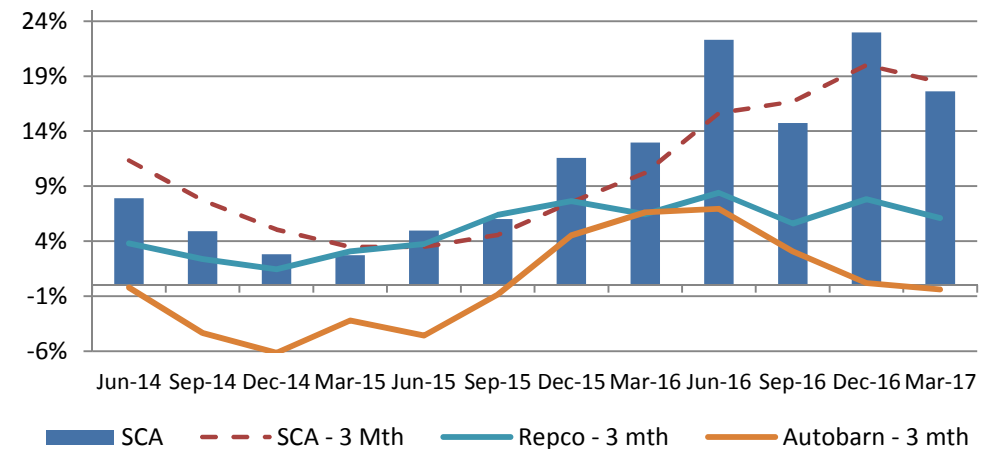
2nd highest – 50%

3rd highest – 35%

Website Unique Visits (m)



Auto - NPS (Stellar) (all customers)



Our businesses lead their markets in engaging customers



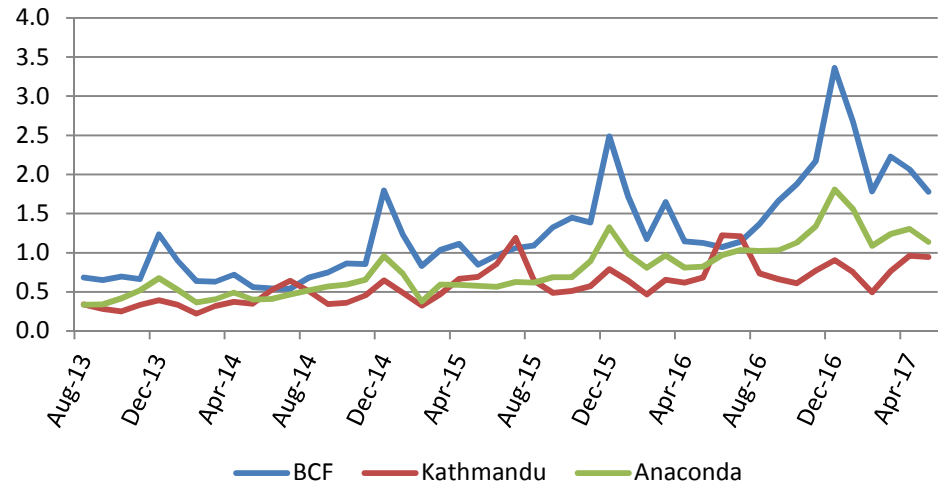
1.2 million active club members

Total unprompted awareness – 55%

2nd highest – 35%

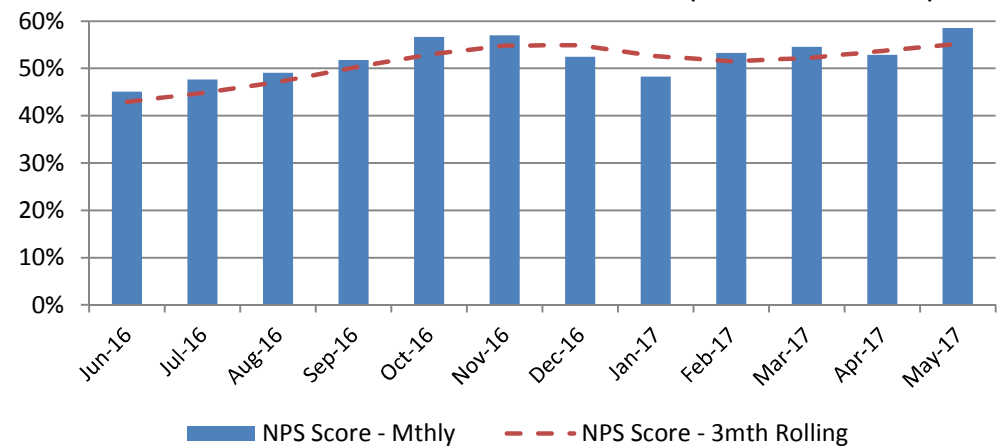
3rd highest – 30%

Website Unique Visits (m)



BCF - NPS

(club customers)



Our businesses lead their markets in engaging customers

rebel

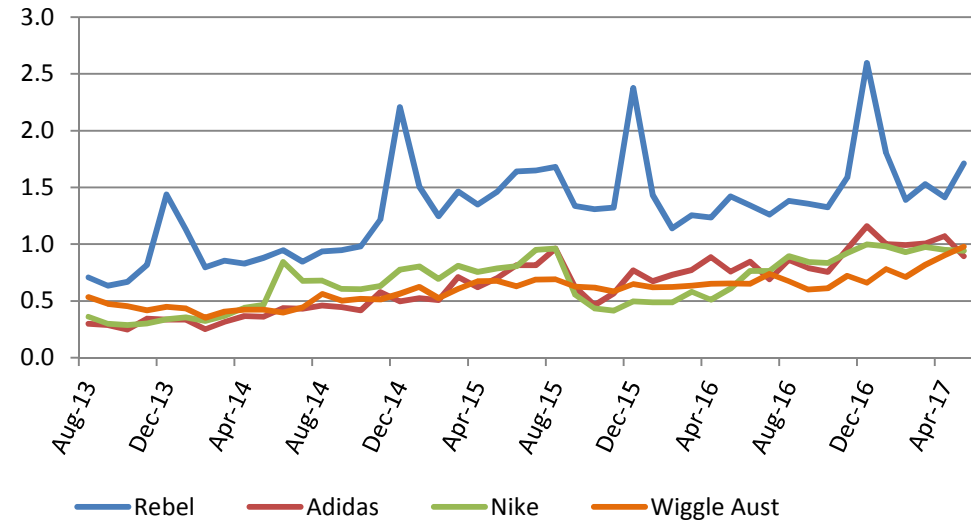
1.6 million active club members

Total unprompted awareness – 59%

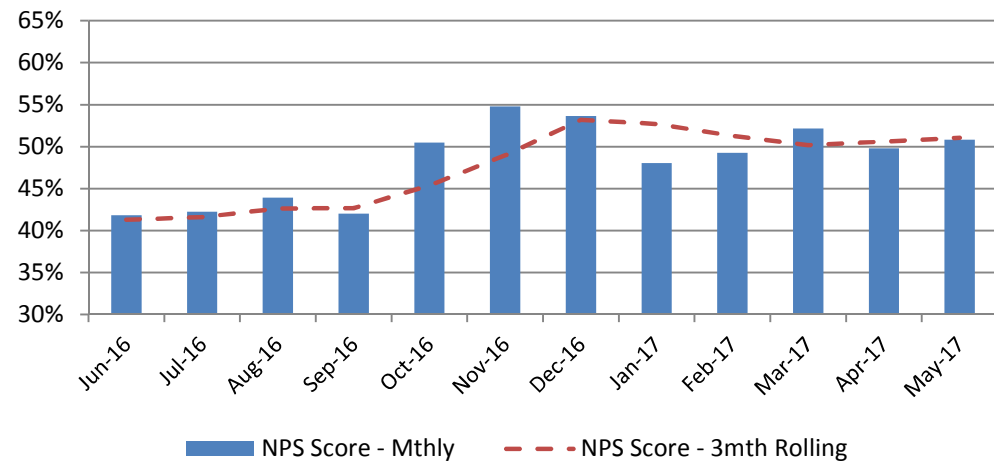
2nd highest – 28% (Amart Sports)

3rd highest – 9%

Website Unique Visits (m)



Rebel - NPS (Resonate) (club customers)



Key initiatives – investing in customer experience

OMNI

- Implementing click and collect into Sports
- Extending click and collect in Auto and Leisure
- Extending customer delivery and collection options
- Improving direct to customer delivery capability and efficiency

DIGITAL

- New web platform for all websites to be implement in FY18
- Building content through partnerships – e.g., Mighty Car Mods
- Customer engagement apps – BCF trialling FISHO
- Leveraging partnership with Auto Guru and You Camp

STORES

- New Stores – opportunity to grow network from 635 to circa 800 stores
- Refurbishments – continuing to refresh the experience in circa 80 stores per annum
- Supercheap Auto trialling new customer experience centre at Penrith

SERVICES

- Supercheap Auto - extending program of in-house provided fitment services and partnering with 3rd party providers
- Sports – clubs and schools program
- BCF – building program of in-house provided services and partnering with 3rd party providers

Key initiatives – building business capability

CUSTOMER INSIGHT

- Developing analytics data hub leveraging Group's 10 year club history
- Enhancing email campaign automation
- Embedding NPS analytics as driver of commercial decisions
- Partnering with analytics companies to advance capability
- Opportunity to drive higher returns from the group's \$90m marketing spend

PRIVATE BRANDS

- Integrating sourcing and supply chain functions to drive profitability of private brands
- A number of new sports private brands being introduced in FY18
- Increasing share of sales from private brand – Supercheap Auto from 43% to 50%; BCF from 30% to 40% and Sports from 6% to 20%

TEAM CAPABILITY AND ENGAGEMENT

- Team engagement is the foundation for delivering customer engagement
- Opportunity to Leverage our industry leading team member engagement and retention
- Culture and capability shift from product centricity to customer centricity
- Focus on leadership alignment, capability development, talent pipeline and building an achievement culture

Key initiatives – delivering business efficiency

OPERATING MODEL	<ul style="list-style-type: none"> Review commenced of the Group wide operating model to <ul style="list-style-type: none"> set up operations in the optimal manner to build a successful omni-retail organisation identify efficiency opportunities in Group wide operations
LEISURE	<ul style="list-style-type: none"> Division – benefits in 1st quarter FY18, cycling impact of Rays Outdoors closure in 1st quarter FY17 BCF – space productivity opportunities identified which will be implemented in FY 18 Rays – trial of new format to conclude in Q3 FY18 – opportunity exists to build a business generating margins and returns in line with target
SPORTS	<ul style="list-style-type: none"> Amart Sports – circa \$20m EBIT opportunity through building EBIT margins to match those of Rebel <ul style="list-style-type: none"> Maturing store space and merchandise productivity in recently opened stores in Victoria and New South Wales Leveraging synergy opportunities across the Division
SUPPLY CHAIN	<ul style="list-style-type: none"> Operations - \$10 million cost efficiencies delivered in FY17; a further \$10 million cost efficiencies to be delivered in FY18 Working Capital – circa \$40 million working capital savings delivered over the last three years; Group is targeting a further \$40 to \$50 million over the next three years

Delivering our financial targets

5 Year Target	Store Numbers	LFL Growth	EBIT Margin	Pre Tax ROC % **
Auto	350	>3% PA	12%	> 50%
Leisure	220	>3% PA	11%	> 30%
Sports	230	>4% PA	11% *	> 30%

* Based on current competitive environment

** Excludes acquired goodwill and brand names

Opportunities

- Growing store numbers to over 800
- Delivering LFL growth of 3% to 4%
- Range management and sourcing initiatives
- Deliver \$20m saving in supply chain costs
- Address loss making small businesses
- Eliminate Group transformation costs
- Private brand profit contribution
- Amart Sports scale and profitability
- Successful transformation of Rays
- Group costs efficiencies targeting \$10m
- \$75m to \$100m working capital savings
- Omni retail capability
- Effective change management

Challenges

- Increased investment in digital and technology
- Investment in in-store customer experience
- Lower domestic growth
- Consumer confidence
- Weakening Australian dollar
- Competitive intensity

Compared to 2014/15 base



Q & A