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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 30 December 2017 of $72.2 million and after adjusting for transformation costs, normalised net profit of $74.9 million, an increase of 0.7 per cent on the prior comparative period.

Key features of the result include:

- Half year sales for the Group of $1.3 billion, an increase of 2.2 per cent on a total and like for like (LFL) basis
- Group's Segment Earnings Before Interest and Tax (EBIT) of $113.6 million, a decline of 1.4 per cent
- Auto Retailing and Sports Retailing segments delivering 3.9 per cent and 1.6 per cent EBIT growth respectively; Leisure segment EBIT $4.2 million lower than prior comparative period
- Operating cash flow of $293.7 million, up by $41.7 million
- Post tax return on capital of 14.9 per cent, an increase of 170 basis points over the prior comparative period
- Interim dividend of 21.5 cents per share

Super Retail Group Managing Director and Chief Executive Officer, Mr Peter Birtles, said he was pleased to report a solid set of overall results for the Group at a time in which the retail industry is going through unprecedented change.

"We have been particularly pleased that our focus on working capital efficiency has resulted in strong operating cash flow performance, a reduction in net debt and a significant increase in post-tax return on capital. One of our key long term goals is to generate return on capital at 15 per cent or higher, and we are now very close to achieving that target.

"We recognise that growth in the markets in which we operate is most likely going to come from an increase in sales from digital channels rather than from the traditional physical channels. We believe this dynamic will lead to opportunities for Super Retail Group to grow its share of the physical market through delivering a better offer for our customers than our competitors and to substantially increase our share of the digital market as we invest in building our omni-retail capabilities.

"We are encouraged that over the first half of the financial year we have increased our overall market share against our key competitors and markedly increased our share of the digital market in each one of the three markets in which we operate. We have generated strong growth in total customer transactions across all channels in each of our three major businesses. We continue to grow membership of our loyalty programs and our members' net promoter scores have again increased through the half.

"The core of our strategy is to deliver on our customer promise of competing on net price and fulfilment, and winning through the inspiration, experience and solutions we offer. Competing on net price and fulfilment will place some pressure on gross margins and winning on inspiration, experience and solutions will require investment in new omni-retail capabilities as we transform our operating model. This will constrain growth in operating margins through this period of transition and capability development.

"This investment will not only safeguard but strengthen our businesses position as customers' number one choice in our categories, and will contribute to the delivery of long term sustainable growth for our team and shareholders."

AUTO RETAILING

Sales increased by 5.6 per cent to $516.7 million with like for like sales growth of 3.5 per cent, driven by both transaction volume and value growth as the business benefited from expanding its customer offering of services, fitment and solutions.

Strong like for like sales growth was achieved consistently across all categories: Auto Accessories, Auto Maintenance, and Tools and Outdoors. Digital sales increased by 128 per cent on the previous corresponding period, driven by customer engagement with the brand's 60 minute 'click and collect' offering.

Supercheap Auto's share of customer spending in automotive aftermarket retailers grew by 40 basis points compared to the prior comparative period.

EBIT grew by 3.9 per cent to $55.7 million. Gross margin increased by 30 basis points driven by reduction in supply chain costs while operating cost to sales increased by 50 basis points reflecting investment in customer experience in store and 'click and collect'.

The brand's loyalty programs continue to grow steadily, with active Club Plus members now numbering over 1.4 million customers.

Customer reaction to the Penrith concept store has been very positive since opening in late June 2017 with significant increases in both customer and financial metrics. During the reporting period, the division opened five new stores and refurbished seven others, resulting in 321 stores at period end.

LEISURE RETAILING

Total sales fell by 3.8 per cent to $299.1 million, as comparative performance through the half was distorted by the closure and conversion of legacy Ray's Outdoors stores in the prior comparative period. BCF's total sales growth was 5.5 per cent driven by a 5.2 per cent increase in customer transactions.

Like for like sales growth was 1.6 per cent with sales performance impacted by unfavourable weather conditions in Queensland and northern New South Wales during October and November, and challenging retail conditions in Western Australia. The converted BCF stores in Victoria and Tasmania delivered strong growth underlining the ongoing potential for the brand through growing its national network in the southern states.

Digital sales increased by 122 per cent and were approaching 10 per cent of total sales during the Christmas period with 'click and collect' a key factor. The division's share of customer spending in Outdoor Leisure retailers grew by 90 basis points compared to the prior comparative period.

EBIT was $16.4 million, a decrease of 20.4 per cent on the prior comparative period.

BCF's gross margin reduced by 40 basis points, reflecting investment in competitive pricing and promotion while operating cost to sales were 30 basis points higher, reflecting lower sales intensity in newer stores and cost to relay boating, apparel and fishing ranges in every store.

The trial of the new Rays format continued through the half with the business contributing $24 million in sales and a $3.5 million EBIT loss. The converted Rays stores achieved LFL sales growth of 4.1 per cent with performance significantly stronger in metro stores compared to outer suburban and regional stores. The EBIT loss reflected the sub scale nature of the trial business and the investment in trial initiatives.

An update on the future of the Rays business and the Group's adventure outdoor retail strategy has been provided to the ASX today in a separate announcement.

There was one new BCF store and one new Rays store opened during the half, and, at period end, there are 136 BCF stores and 15 Rays stores.

SPORTS RETAILING

During the period, the division completed the conversion of 68 Amart Sports stores to the Rebel brand. This significant transition was completed on schedule and below budgeted cost. As foreshadowed in the announcement of the merger, the merchandise offer will not be fully integrated until July 2018 as a consequence of inventory commitments and lead times. Given the scale of transition, the division delivered a creditable result for the half.

Total sales grew by 2.7 per cent to $503.8 million with like for like sales growth of 1.1 per cent. The business generated strong LFL growth in Apparel and solid growth in Footwear while Equipment was flat on the prior comparative period.

Digital sales were 174 per cent higher than the prior comparative period as the business introduced 'click and collect' in late October to coincide with the conversion of the former Amart Sports stores. The division's share of customer spending in sports retailers grew by 50 basis points.

EBIT increased by 1.6 per cent to $51.7 million. The activity associated with the Amart Sports stores transformation was a key factor in store wages increasing as a percentage of sales by 40 basis points and gross margin declining by 20 basis points. Strong control of advertising and support costs contributed to an overall 10 basis point reduction in operating cost to sales.

At period end, there are a total of 168 Rebel stores, which includes eight standalone RebelFit stores. By the end of March, the eight RebelFit stores will be relocated and operate within an existing Rebel store as a 'store within a store', following the successful trial of this format.

GROUP AND UNALLOCATED

Group costs were $10.2 million during the half. These include corporate costs, unutilised storage space and investment in the Group's digital initiatives. Unutilised storage costs continue to reduce over time, reflecting ongoing business growth.

Investment amounting to $3.0 million in the Group's related party digital businesses and certain omni-retail initiatives has been expensed rather than capitalised due to the early development phases of these projects.

CASH FLOW AND NET DEBT

Operating cash flow pre store investment at $303.8 million was $30.0 million higher than the prior comparative period.

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 $27.9 million. The Group invested a further $38.5 million in general capital expenditure projects, predominantly in information technology.

The Group has maintained its focus on working capital management, with closing net inventory investment of $73.8 million, $52.6 million lower than the prior comparative period.

Closing net debt of $199.2 million was $43.7 million lower than the prior comparative period, benefitting from the Group's strong operating cash flow management.

SECOND HALF TRADING UPDATE

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

Like for like sales growth has been circa 4.5 per cent in Auto, circa 2 per cent in Leisure and circa 1.5 per cent in Sports for the first seven weeks of the second half of the year.

Mr Birtles said that the Group was planning to open approximately five new stores, close four stores across the Group and integrate the RebelFit eight standalone stores in the second half, adding:

"We are excited by the impending improvement in the digital experience we offer to our customers with the rollout of our new website platform across all of our businesses over the coming six months.

"We expect that digital channels will present the key opportunity for growth and we will invest in further increasing our share of customer spending in those channels. Although this investment will constrain growth in operating margins in the current year, it will strengthen our businesses to better meeting changing customer expectations and better position the Group for long term growth."

ENDS

Further information:	Mr Peter Birtles Group Managing Director and CEO Super Retail Group 07 3482 7900	Mr David Burns Chief Financial Officer Super Retail Group 07 3482 7900

Peter Birtles and David Burns will be providing a presentation on the results today. A recording of this presentation will be available on the Super Retail Group corporate website: http://www.superretailgroup.com.au/investors-and-media/video-and-audio/

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