21 August 2018

ASX/Media Announcement

Super Retail Group reports full year results

Super Retail Group Limited (ASX:SUL) today announced net profit after tax attributable to owners for the 52 week period to 30 June 2018 of $128.3 million. After adjusting for items not included in total segment net profit after tax, normalised net profit after tax was $145.3 million.

Key features of the result include:

- Normalised Net Profit After Tax (NPAT) at $145.3 million, an increase of 7.0 per cent over the prior comparative period (pcp)
- Group's Segment Earnings Before Interest and Tax (EBIT) at $219.6 million, an increase of 5.9 per cent on pcp
- Total Group Sales of $2.57 billion, an increase of 4.2 per cent on pcp
- Auto, Sports and Outdoor Divisions all delivered like for like sales and EBIT growth
- Operating cash flow of $308.4 million, $73.9 million higher than pcp
- Acquisition of Macpac for NZ$144.0 million completed, and effective 31 March 2018
- Final dividend of 27.5 cents contributing to a full year dividend of 49.0 cents, 5.4 per cent higher than pcp

Super Retail Group Managing Director and Chief Executive Officer, Mr Peter Birtles, said:

"We are pleased to report a record result for the Company in a year in which we have also made significant progress in delivering on the three core elements of our strategy."

- "We have strengthened our portfolio of businesses in high engagement categories with the merger of the Rebel and Amart Sports businesses and the acquisition of Macpac and merger with Rays."
- "The introduction of new learning and recognition programs has contributed to our top quartile team member engagement and retention, and our customers are increasing their rating of our team members' expertise and service."
- "Our investment in building our omni-retail capabilities has underpinned strong growth in our on-line sales and we continue to extend our offering to our customers through additional ranges and services and improved in-store and on-line experience."

"Growing our share of customer spending in our markets is a key priority as the retail industry evolves with the impacts of new competitors and of technology. We aim to incrementally grow our share of customer spending in stores while significantly increasing our share of customer spending in digital channels.

"The acquisition of Macpac completed with an effective date of 31 March 2018 and it performed strongly over the subsequent three months, contributing $7.8 million EBIT. We have closed six Rays stores and will be converting the remaining nine Rays stores to Macpac large format stores in the fourth quarter of the coming financial year. This will eliminate the losses contributed by the Rays business over recent years.

"We completed the conversion of 68 Amart Sports stores to the Rebel brand and restructured the Division's support functions over a 68 day period in the first half of the year. As anticipated, this significant change had some impact on sales and margin performance over the following six months as the Sports Division consolidated the product range across all stores and relaunched the former Amart Sports stores under the Rebel brand. Pleasingly customer net promoter scores have improved through the transition and sales momentum rebounded strongly in the final quarter."

"The operating cash flow performance was again very strong demonstrating the Company's ability to generate working capital savings to fund its investment in new and refurbished stores and in building its omni-retail capabilities. As a result net debt increased by only $42.2 million, even with the debt funded $133.8 million acquisition of Macpac.

"The performance in the non-financial measures that we use as an indicator of the health of our Company has again been strong. From the customer perspective, we have seen increases in customer traffic online and an increase in average club net promoter scores. From a team member perspective, we have seen another strong improvement in our safety performance and we have maintained engagement levels within the top quartile of all Australian businesses."

SEGMENT RESULTS: AUTO RETAILING

Sales increased by 5.3 per cent to $1,006.4 million, with like for like growth of 3.6 per cent, driven by growth in transaction numbers, number of items per transaction and average item value.

All major product categories generated sales growth with stronger growth across the Maintenance and Accessories categories. From a geographical perspective, New Zealand delivered strong growth and all Australian states delivered positive growth.

On-line sales increased by 85 per cent on the previous corresponding period, driven primarily by industry-leading click-and-collect service levels. Average Club Member Net Promoter Score (NPS) at year end was 59, a score growth of four over the year.

Supercheap Auto's share of customer spending in automotive aftermarket retailers grew by 0.7 percentage points compared to the prior comparative period.

Segment EBIT grew by 4.9 per cent to $116.4 million, with EBIT margin in line with the prior comparative period at 11.6%. Retail gross margin increased by 0.3 percentage points driven by ranging and sourcing benefits. Operating costs were 0.3 percentage points higher than the prior comparative period reflecting the investment in omni-retail capabilities partly offset by supply chain efficiencies.

Fitment services continued to grow strongly and are now averaging around 15,000 per week, delivered by team members in store or through partnering with third parties in areas requiring more complex and capital intensive fitment services, such as tyre or windscreen replacement.

The brand's loyalty programs also continue to grow, with close to 1.47 million active Club Plus members.

During the reporting period, the Division opened five new stores, closed two stores, refurbished 12 stores and relocated nine others, resulting in 319 stores at period end.

OUTDOOR RETAILING

The Outdoor Retailing Segment consists of the BCF, Rays and Macpac businesses.

Following the completion of the successful trial of an outdoor adventure large format store under the Rays brand, the company announced its intention of building an outdoor adventure business through the acquisition of Macpac and merger of the business with Rays.

The Macpac business was acquired effective 31 March 2018 while six Rays stores that are not suitable for the future business model were closed in June 2018. The remaining nine Rays stores will be converted to large format Macpac stores in the fourth quarter of the current financial year.

The Segment accumulated $579.8 million sales and $29.6 million EBIT which were 4.8 per cent and 16.5 per cent higher than the prior comparative period respectively.

BCF generated $498.3 million in sales which was 3.7 per cent higher than the prior comparative period. Like for like sales grew by 1.1 per cent with small increases in both transaction numbers and average transaction values.

On-line sales increased by 76 per cent on the previous corresponding period, also driven primarily by click-and-collect. Average Club Member Net Promoter Score (NPS) at year end was 57, a score growth of 3.5 over the year.

BCF's share of customer spending in outdoor retailers declined by 1.2 percentage points compared to the prior comparative period, reflecting competitors increasing their store footprint and pricing intensity.

The BCF business contributed $27.3 million EBIT which was 11.9% below the prior comparative period. EBIT margin was 1.0% below the prior comparative period as a result of a decline in gross margin through increased promotional mix and an increase in operating costs as a percentage of sales, reflecting the lower like for like sales growth and investment in omni-retail capabilities.

During the reporting period, BCF opened two new stores and closed three stores, resulting in 134 stores at period end.

Macpac generated A$31.4 million in sales and A$7.8 million in EBIT in the fourth quarter. On a proforma basis, the business reported $A94.7 million in sales and A$15.0 million in EBIT for the 12 months to 30 June 2018. Like for like sales growth was circa 8 per cent over the 12 months.

Macpac finished the period with 54 stores across Australia and New Zealand.

The 15 Rays trial stores contributed $50.1 million in sales and a trading loss of $5.5 million. The nine Rays stores that will convert to Macpac delivered like for like sales growth of 8.2 per cent and total sales in line with business case expectations for the large format adventure outdoors stores.

The Group has recognised, post-tax acquisition costs of $3.9 million associated with the Macpac acquisition and closure costs of $9.1 million after tax associated with the closure of the six Rays trial stores, as other items not included in normalised NPAT.

SPORTS RETAILING

Total sales for the Sports Retailing Segment grew 3.2 per cent to $979.2 million, with 2.0 per cent like for like sales growth driven by transaction number growth. Average transaction values were lower than the prior year as the business increased promotional activity and aligned product ranges following the conversion of the Amart Sports stores to Rebel. Like for like growth strengthened through the year reaching over 4 per cent in the final quarter.

The apparel and footwear categories delivered solid growth, although equipment categories, which were more impacted by the conversion of Amart stores, were lower than the prior year.

On-line sales increased by 152 per cent on the previous corresponding period, benefitting from the introduction of click-and-collect in October 2017. Average Club Member Net Promoter Score (NPS) at year end was 55, which was three higher than the prior year given the conversion of the Amart Sports business.

Rebel generated the same share of customer spending in sporting goods retailers as the Rebel and Amart Sports brands generated in the prior comparative period.

Segment EBIT grew by 0.2 per cent to $91.5 million. EBIT margin at 9.3 per cent was 0.3 percentage points lower than the comparative period, as a result of the increase in promotional activity associated with the Amart transition impacting on gross margin. Operating costs reduced as a percentage of sales as a result of the Division delivering the expected savings in marketing and support costs from the merger of the Rebel and Amart Sports brands.

During the period the Division closed its Rebel Fit business and $2.7 million of costs associated with the closure have been recognised in items not included in normalised NPAT.

During the period, three new Rebel stores were opened and all eight Rebel Fit stores were closed, resulting in 159 total stores at year end.

GROUP AND UNALLOCATED

Group costs at $17.9 million were $2.5 million lower than the previous corresponding period, reflecting a reduction in unallocated distribution centre space, a reduced investment in the Group's digital projects partly offset by an increase in costs incurred in building the Group's omni-retail capabilities.

During the period, the Group and its fellow shareholders raised additional capital in the Auto Guru digital business. As a result, the Group now holds below 50 per cent of the Auto Guru business and income and expenses relating to Auto Guru are now reported as items not included in normalised NPAT. This includes the $6.9 million profit earned by the Group from the capital raising.

Also excluded from normalised NPAT is $6.0 million after tax due to additional costs associated with team member payments on store set up projects for prior years. A further $1.4 million after tax has been recognised in the current financial period. These amounts recognise payments for additional overtime and allowances of an estimated $7.9 million to current and former team members covering the period 1 July 2010 to 30 June 2018.

CASH FLOW AND NET DEBT

Operating cash flow pre-store investment was $322.1 million, demonstrating continuing very positive cash conversion. The increase over last year was $57.3 million reflecting higher profit, solid working capital management and circa $17 million timing benefits.

Inventory values have increased across the Group reflecting a Groupwide focus on improving in-stock levels, the impact of currency and increased private brand mix. This increased investment has been fully funded through extending trade payable days by supply chain efficiency and trade partner payment terms.

The profile of the Group's capital expenditure has been adjusted to increase the investment in omni-retail capabilities while moderating the spending on the growth and refurbishment of its store network. Investment in new and refurbished stores totalled $46.6 million, with a further $60.5 million in omni-retail development and other general projects, predominantly in information technology.

Closing net debt of $422.9 million was only $42.2 million higher than the prior year, even with the $133.8 million acquisition of Macpac. The normalised fixed charge cover ratio has been maintained at 2.1 and net debt to normalised EBITDA is 1.4 times.

2018/19 TRADING UPDATE

The Group has had a solid start to the new financial year with each business delivering positive like for like sales growth.

LFL Sales Growth 6 weeks to 11 August:

Supercheap Auto	circa 5%
Rebel	circa 3%
BCF	circa 3%
Macpac	circa 7%

ENDS

Further information:

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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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