Super Retail Group

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15 August 2019

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 29 June 2019 of $139.3 million. After adjusting for items not included in total segment net profit after tax, normalised net profit was $152.5 million

Key features of the result include:

- Total Group sales of $2.71 billion, an increase of 5.4% on the previous comparative period (pcp)
- Group like for like sales growth of 2.9% with all divisions delivering positive like for like sales growth
- Group segment earnings before interest, tax, depreciation and amortisation (EBITDA) of $314.7 million, an increase of 7.0% on pcp
- Segment depreciation and amortisation increased by 16.2% to $86.6 million reflecting investment in omni- retail model
- Group segment earnings before interest and tax (EBIT) of $228.1 million, an increase of 3.9% on pcp
- Normalised net profit after tax (NPAT) of $152.5 million, an increase of 5.0% on pcp
- Final fully franked dividend of 28.5 cents per share contributing to full year dividends of 50.0 cents per share
- Strong operating cashflows supporting a $36.2 million reduction in net debt

Super Retail Group Managing Director and Chief Executive Officer, Mr Anthony Heraghty, said:

"We are pleased to report a solid result for the Company in a year in which:

- We have grown our active loyalty club membership to over six million members. Our club members now represent over 56% of sales across the Group. Club members are more highly engaged and have a higher average transaction value than non-club members. We see a significant opportunity to get closer to our customers by refreshing our loyalty programs and utilising customer data analytics to make more tailored and personalised offers.

- Our investment in building our digital and omni-retail capabilities has underpinned 25% annual growth in Group online sales. Replatforming of our websites and improvements to our digital content have delivered increased website traffic and higher conversion of visits to sales. Click & Collect has proven very popular with our customers and accounts for over 40% of online sales. This has enabled the Group to leverage its store portfolio to grow online sales while mitigating our online cost to serve.

- We have strengthened our portfolio of powerful brands, by investing in capability and systems in our Macpac business to position the business for continued expansion and successfully converting nine Rays stores into Macpac Adventure Hubs. All of our brands have leading market positions in growing lifestyle categories and have consistently demonstrated the ability to deliver top line growth. We have the capacity to improve margins through deeper customer engagement, improved promotional efficiency and integration of our supply chain."

"The Group delivered another year of strong operating cashflow. Normalised EBITDA cash conversion of 94% reflected an ongoing focus on working capital and inventory management to improve in-store availability of products. These strong cashflows have enabled the Group to fund its growth initiatives and increase shareholder dividends while at the same time strengthening the balance sheet by paying down debt. As a result, net debt decreased by $36.2 million to $386.7 million and normalised net debt/EBITDA decreased to 1.2 times."

SUPERCHEAP AUTO

Sales increased by 3.4% to $1,040.6 million, with like for like growth of 2.3%. Like for like growth was driven by higher average transaction value and reflected an increase in average item value and higher average units per transaction.

Geographically, sales growth was achieved across all Australian states and New Zealand.

Gross margin was in line with the prior comparative period and operating expenses as a percentage of sales improved by 0.3%.

Segment EBITDA increased by 5.3% to $156.1 million and EBITDA margin of 15.0% was 0.3% higher than the prior comparative period.

Segment EBIT increased by 3.6% to $120.6 million and EBIT margin of 11.6% was in line with the prior comparative period.

Auto maintenance and auto accessories, which represent approximately three quarters of divisional revenue, were the strongest performing categories and delivered solid sales and like for like sales growth.

Supercheap Auto is focused on expanding the value added services it provides to customers to encourage them to visit stores when purchasing products. Strong growth in services like diagnostics and blade, bulb and battery fitting increased product sales and helped deliver $8 million in total services revenue in the financial period.

The business successfully relaunched the Supercheap Auto website during the financial period with pleasing results. Growth in online traffic and a significant improvement in online conversion resulted in online sales growth of 25%. Online sales now represent 6% of Supercheap Auto's total sales and Click & Collect accounts for approximately two thirds of these online sales.

Supercheap Auto Club Plus membership increased by 12% during the financial period to 1.65 million members. Sales attributable to club members increased to 39% of total sales. Average club member NPS increased to 61% from 59% in the prior comparative period.

The business opened five new Supercheap Auto Stores and closed one store in the financial period. The store refurbishment program completed 8 refurbishments and relocations plus an additional 14 layout changes. As at 29 June 2019, Supercheap Auto had a total of 278 stores in Australia and 45 stores in New Zealand.

REBEL

Sales increased by 3.8% to $1,016.4 million, with like for like growth of 3.3%. Like for like growth was driven by both transaction growth and higher average transaction value. Queensland, Victoria and South Australia delivered the strongest like for like sales growth.

Gross margin was in line with the prior comparative period and operating expenses as a percentage of sales improved by 0.3%.

Segment EBITDA increased by 6.0% to $122.6 million and EBITDA margin of 12.1% was 0.3% higher than the prior comparative period.

Segment EBIT increased by 2.5% to $93.8 million and EBIT margin of 9.2% was 0.1% lower than the prior comparative period.

Key categories of apparel and footwear delivered solid sales growth in the financial period. Fitness accessories also performed well, while sales of hard goods decreased.

Following the launch of a new website platform in July 2018 as part of the Group's ongoing investment in its omni-retail capability, Rebel has delivered online sales growth of 33%. In the financial period, website traffic has increased and conversion rates have improved by almost 20%. Online sales now represent 9% of total Rebel sales and Click & Collect accounts for approximately one quarter of these online sales.

Rebel active club membership increased by 8% during the financial period to 2.57 million members. Sales to club members represent 61% of Rebel sales. Average club member NPS increased to 57% from 55% in the prior comparative period.

In the financial period, the business has opened 4 stores and closed 2 stores. The store refurbishment program completed 4 relocations and extensions together with 15 refurbishments. As at 29 June 2019 Rebel had a network of 161 stores.

BCF

Sales increased by 3.3% to $514.6 million with like for like growth of 3.2%. Like for like growth was driven by higher average transaction value resulting from higher units per sale.

BCF delivered positive like for like sales growth across all States. The camping and apparel categories delivered strong like for like sales growth while the fishing category declined.

Over the financial period, gross margin materially declined across all categories due to the highly competitive environment driving a higher mix of promotional sales and deeper discounting on key value items. Gross margin began to stabilise in the second half as BCF pricing and promotional countermeasures took hold. The competitive pricing environment remains unchanged.

Operating expenses as a percentage of total sales improved by 0.5%.

Segment EBITDA decreased to $40.2 million and EBITDA margin of 7.8% was 1.1% lower than the prior comparative period.

Segment EBIT decreased to $20.8 million and overall EBIT margin declined from 5.5% in the prior comparative period to 4.0%.

The BCF club loyalty program exhibited strong growth in the financial year with active memberships increasing by 7% to 1.45 million. BCF club members represent 81% of total BCF sales. Average club member NPS increased to 61% from 57% in the prior comparative period.

Online sales grew by 6% reflecting growth in online traffic and improvements in online conversion. BCF was the first of four brands to replatform which negatively impacted online sales. Online sales now represent 7% of total BCF sales and Click & Collect accounts for approximately 70% of these online sales.

BCF opened 3 stores and closed 1 store during the financial period. As at 29 June 2019, BCF had 136 stores.

MACPAC

The Macpac business, which was acquired effective 31 March 2018, made a full year contribution in 2018/19 compared to a three month contribution in 2017/18.

During the financial period, the Group successfully completed the integration of Macpac and ceased operating Rays. Sales from Macpac stores (including Adventure Hubs) increased to $119.3 million supported by store openings and like for like growth. Like for like sales growth for Macpac (including Adventure Hub stores post April Easter trading period, week 44) was 7.3%.

Macpac stores (including Adventure Hubs) delivered EBITDA of AUD 17.4 million compared to acquisition case of NZD 16 million (equivalent to AUD 14.7 million), in line with management's business plan.

Macpac stores (including Adventure Hubs) delivered $15.4 million of EBIT in the financial period. Operating expenses increased, in line with management's business plan, as a result of investment in capabilities and systems to support expansion. Additional overhead costs relating to Adventure Hubs were also incurred in the period. The opportunity exists to fractionalise these costs over time as the formats mature and the store network expands.

The Group converted nine Rays stores to large format Macpac Adventure Hubs in March 2019. The Rays brand has ceased to operate and incurred $2.4m of EBIT losses in the financial period.

Macpac online sales grew by 24% during the financial period and now represent over 10% of Macpac sales.

Macpac now has over 400,000 club members representing 65% of total sales.

Macpac opened 16 stores during the financial period including seven small format stores and nine large format Adventure Hub stores as referred to above. As at 29 June 2019, Macpac had 70 stores comprising 61 small format stores and nine Adventure Hub stores. The Group believes Macpac is now well positioned to grow profitably and to expand its store network in Australia and New Zealand.

GROUP AND UNALLOCATED

Group costs for the period were $20.1 million, up by $2.2 million compared to the prior period. The Group costs include corporate costs of $12.2 million, $3.3 million of un-allocated distribution centre costs and $4.6 million relating to omni-retail development and digital investment.

BACK PAYMENTS TO TEAM MEMBERS

During the financial period the Group completed a comprehensive review of employment arrangements across the business following the identification of underpayments to team members. As previously announced to the market on 12 February 2019, the Group will make back payments to all impacted team members. These payments are expected to be finalised and paid in 2019/20. A total of $24.0 million after tax is included in the restatement of retained earnings. In addition, the Group has recognised net $8.9 million before tax ($6.2 million after tax) as an expense in 2019 relating to revision of wages underpayment estimates and associated remediation costs.

CASHFLOW AND NET DEBT

Operating cashflow of $240.9 million represents normalised EBITDA cash conversion of 94% and reflects the Group's ongoing focus on working capital management. The increase in Group inventory levels reflects a continued Groupwide focus on improving in-stock levels to ensure product availability for customers. This increased investment has been funded through supply chain efficiencies.

The Group's capital expenditure program continues to place emphasis on investment and omni-retail capabilities while moderating the spending on the expansion and refurbishment of its store network, reflecting the channel shift towards digital. Investment in new and refurbished stores totaled $28.6 million while $61.2 million was invested in building omni-retail capabilities, data and analytics, inventory management projects and other information technology projects.

Closing net debt of $386.7 million was $36.2 million lower than the previous year. The fixed charge cover ratio remained steady at 2.1 times and normalised net debt to EBITDA decreased to 1.2 times.

2019/20 TRADING UPDATE

The Group trading update for the first 6 weeks of 2019/20 is set out below. Trading conditions have been subdued in the new financial year, however the Group's largest three businesses are delivering positive like for like sales growth as follows:

Like for like sales growth first 6 weeks

Supercheap Auto	~3%
Rebel	~2%
BCF	~5%
Macpac	negative ~3%

The Macpac like for like sale decline reflects a shift in the timing and duration of its winter promotion.

The Group expects 2019/20 capital expenditure to be between $85 million and $90 million.

As previously flagged to the market in its presentation lodged with ASX on 30 April 2019, the Company expects a proposed new Enterprise Agreement for retail and clerical workers to be implemented in 2019/20. If the Enterprise Agreement is approved by the Fair Work Commission, store wage inflation is expected to have a one off incremental EBITDA impact of approximately $9 million in its first year.

RESULTS BRIEFING - TELECONFERENCE DETAILS

The teleconference details for today's results briefing for analysts and institutional investors at 10.30am (Sydney time) are set out below:

Conference ID: 10000946

Country	Direct	Toll Free
Australia	02 9007 3187	1800 558 698
Canada		1 855 336 4664
China		4001 200 641
Hong Kong		800 906 986
Japan		005 3116 1306
New Zealand		800 480 392
Singapore		800 852 3140
United Kingdom		0808 168 3761
USA		1 855 336 4664

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