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Annual General Meeting – CEO's address

Introduction

Thank you Sally and good morning ladies and gentlemen. It's a great privilege to be here today at my first Annual General Meeting as your Group Managing Director and Chief Executive Officer.

It is my pleasure to provide you with an overview of the 2019 financial year and an update on our trading performance in the current year.

I will then provide some commentary around our corporate strategy, which we will elaborate further on at our Investor Day in November.

2019 financial year performance

The Group delivered a solid result for the financial year despite relatively subdued economic conditions. We achieved total sales growth of 5.4% and delivered like-for-like sales growth across all four divisions. This topline growth translated into a 7.0% increase in Segment EBITDA, a 3.9% increase in Segment EBIT and a 5.0% increase in normalised net profit after tax.

The Group also delivered another period of strong operating cashflows. Normalised EBITDA cash conversion of 94% reflected an ongoing focus on working capital together with a strategic decision to invest in inventory levels to increase in-store availability of products. This enabled the Group to fund its growth initiatives while reducing net debt by $36.2 million and paying fully franked dividends totalling 50 cents per share.

Our four brands have established leading market positions in growing lifestyle categories and have consistently demonstrated the ability to deliver topline growth. We have the capacity to improve margins through deeper customer engagement, improved promotional efficiency and integrating our supply chain. This year we have strengthened our brand portfolio, by investing in both capability and systems in Macpac to position the business for continued expansion, and successfully converting nine Rays stores into Macpac Adventure Hubs.

Super Retail Group has over six million active members in its loyalty club programs. These customers represent over 56% of Group sales and have a higher average transaction value than non-members across each of the four brands. The Group has a great opportunity to build on this and develop closer customer relationships by refreshing loyalty programs and using customer data analytics to provide more tailored and personalised offers.

Online sales grew by 25% as customers shifted to the omni-channel experience, allowing them to shop online and collect purchases either in store or at the location of their choice. Online sales now represent over 7% of total Group sales, however almost half of all online sales are Click & Collect transactions where the customer visits a store to collect their purchase. This means the Group can leverage its national store footprint to grow online sales and mitigate its cost to serve.

The Group remains focused on growing market share by investing in its digital capability and omni-retail platform to provide customers with a seamless multi-channel shopping experience.
This gives customers the flexibility to shop when, where and how they want. The Group's scale provides the opportunity to share the cost of investment in technology and systems across its entire brand portfolio, store network and customer transaction base.

Our team members

We know that our customers' experience starts with our team. Having engaged and capable team members is essential to providing inspiring solutions and experiences for our customers. This year we were delighted to receive an Aon Best Employer for Australia award.

We are committed to providing a safe working environment for all our people. In 2018/19 our Total Recordable Injury Frequency Rate improved by more than 10% to 14.3 incidents per million hours worked. This is a pleasing outcome and we will endeavour to deliver an even better result next year.

We also continued our investment in leadership capability and team members' skills and knowledge by strengthening our retail experience at the executive level. We are conducting targeted leadership capability programs for senior management and continuous learning programs focused on technical skills for all team members.

A disappointing note in 2018/19 was the identification of an underpayment of our retail managers, after a group-wide review of employment arrangements.

The issue reflects a similar problem to the issue we uncovered with our Set Up team members in 2017/18. We found that while retail managers' base salaries were correct, not all overtime hours worked were paid according to the General Retail Industry Award. Additionally, some allowances required under the award were not paid. They are both serious underpayments that we deeply regret and we have apologised to affected team members.

To ensure ongoing compliance, we have introduced new operational processes and increased our level of governance, including quarterly audits of our employment arrangements. We are confident that we have the controls in place to pick up any future anomalies should they occur.

We are well progressed on our remediation for Set Up team members and back payments for retail management, including 5.5 per cent annual interest, will be made this financial year.

Sustainability

We remain committed to social, ethical and environmental initiatives that benefit our team, investors, customers, trade partners and the communities in which we operate. The three pillars of our sustainability strategy reflect the areas where we believe we can have the greatest impact:

1. Acting with integrity – assisting communities that support us by doing business responsibly,

2. Passionately supporting our team – encouraging our people to live their passion and share it with our customers and

3. Caring for our natural environment – reducing our impact and protecting the environment that enables our outdoor passions.

This year we enhanced the long-term direction of our sustainability strategy by aligning future initiatives to the United Nations Sustainable Development Goals (SDGs), which provide a global framework so business, governments and the broader community can pull in the same direction. We became a signatory to the United Nations Global Compact (UNGC) and support its Ten Principles.

Our trade partners were provided greater clarity about our expectations for addressing global social and environmental factors in our supply chain. This includes sourcing products in a sustainable and responsible way, respecting human rights and fair working conditions, and managing our environmental impact in the sourcing process.

Over the past year, we increased the percentage of women in leadership roles. Across the organisation, 39 per cent of our leadership positions are now filled by women, while female representation on our Board remained at 43 per cent. Advancing gender diversity at all levels is a priority, in line with our target of having 40 per cent female representation at both Board and senior management level by 2020.

Within our brands, we focused on matters most relevant to our customers. This included recycling oil and car batteries in Supercheap

Auto, supporting women in sport in Rebel by partnering with Australia’s major sporting codes, protecting and restoring waterways and fish habitats in BCF, and focusing on sustainable apparel design in Macpac.

Supercheap Auto

Divisional sales of $1,040.6 million were 3.4% higher than the prior comparative period, supported by like-for-like growth of 2.3%.

Like-for-like sales growth of 2.3% was driven by higher ATV and reflected an increase in average item value and higher average units per transaction.

Gross margin was in line with the prior comparative period and operating expenses as a percentage of sales improved by 0.2%.

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 LFL sales growth.

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

Sales growth was achieved across all Australian states and New Zealand delivered very strong growth. Gross margin was in line with the prior comparative period.

The business successfully relaunched the Supercheap Auto website during the financial period with strong results. Additional 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 now accounts for approximately two thirds of these online sales.

Supercheap Auto Club Plus membership increased by 12% during the year to 1.65 million members. Sales attributable to club members increased to 39% of total sales. Average club member NPS increased from 59% to 61% 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 June 2019, Supercheap Auto had 278 stores in Australia and 45 stores in New Zealand.

Rebel

Divisional sales of $1,016.4 million were 3.8% higher than the prior comparable period, supported by like-for-like sales growth of 3.3%. Segment EBIT of $93.8 million was 2.5% higher than the prior comparative period.

Like-for-like sales growth of 3.3% was driven by both transaction growth and higher average transaction value.

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. Fitness accessories also performed well, while sales of hard goods decreased.

Queensland, Victoria and South Australia delivered the strongest like-for-like sales growth.

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

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

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

BCF

BCF sales of $514.6 million increased by 3.3% on the prior comparative period.

Sales growth was primarily attributable to LFL sales growth of 3.2%, which 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 LFL sales growth while LFL sales in 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 to 4.0% from 5.5% in the prior comparative period.

The BCF club loyalty program exhibited strong growth in the financial year with active memberships increasing by 7% to 1.47 million. BCF club members represent 81% of total BCF sales. Average club member NPS increased from 57% to 61% previously.

Online sales grew by 6%, reflecting growth in both online traffic and online conversion. BCF was the first of four brands to re-platform, 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 three stores and closed one store during the financial period. As at June 2019, BCF had 136 stores.

Macpac

The Macpac business, which was acquired effective 31 March 2018, made a full year contribution in FY2019, compared to a three-month contribution in FY2018.

During the financial period, the Group successfully completed the integration of Macpac and ceased operating Rays. The Rays brand has ceased to operate and incurred $2.4m of EBIT losses in the financial period. 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 from week 44) was 7.3%.

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 share these costs over time as the formats mature and the store network expands.

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

Macpac now has over 400,000 club members, representing about two-thirds of total sales.

Macpac opened 16 stores during the financial period including seven small format stores and nine large format Adventure Hub stores. As at June 2019, Macpac had 70 stores - comprising 61 small format stores and nine Adventure Hub stores.

Macpac is now well positioned to grow profitably and expand its store network in Australia and New Zealand.

Trading Update

I am pleased to provide a trading update for the Group. In the first 16 weeks of 2019/2020 the Group has delivered total sales growth of 4.2% and like for like sales growth of 3.2%.

Sales growth across the Group's four businesses has been as follows:

	Total Sales Growth	Like for like Sales Growth
Supercheap Auto	3.5%	2.7%
Rebel	3.9%	3.1%
BCF	6.7%	6.5%
Macpac	3.8%	(2.1%)

We have made a solid start to the year. While retail consumer sentiment remains mixed, the Group has delivered strong sales growth and like for like sales growth across our three largest brands. In response to a cautious consumer, we have activated a higher level of promotional activity across the business which has successfully generated top line growth but adversely impacted margin.

Macpac is cycling a strong sales performance in the previous corresponding period. Macpac's like for like sales also reflect refinements to our promotional and pricing strategy as we aim to strike the right balance between sales and margin. We remain confident that Macpac will continue to deliver shareholder value as we open stores, grow digital sales and increase our brand awareness in the Australian market

As always, the Group's first half result will be highly dependent on the Christmas trading period.

Leadership Team

After commencing as CEO and Managing Director in February, I have made a number of key additions to the management team including:

- Benjamin Ward (Managing Director, Supercheap Auto) – Benjamin has almost 25 years of retailing, product-sourcing, merchandise and store management expertise and was most recently Managing Director, Global Business Coordination for ALDI Supermarkets
- Gary Williams (Managing Director, Rebel) - Gary has over 30 years of retail and marketing experience and was most recently Chief Operating Officer at Alceon Retail Group
- Paul Bradshaw (Managing Director, BCF) – Paul has deep retail expertise from more than 30 years in executive and management leadership roles at successful retailers including Safeway, ASDA and the Coles Group
- Katie McNamara (Chief Strategy and Customer Officer) Katie brings more than 20 years' experience in top tier consulting, retail and FMCG businesses and was most recently Vice President Asia Pacific for IBM where she led digital strategy.

Benjamin, Paul, Gary and Katie complement the existing leadership team with the skills, experience and capability to successfully execute our strategy and grow the business in a dynamic retail landscape.

Group Strategy

The Group has announced to the market that we will be conducting an investor day for our institutional investors on 8 November where we will provide more details on our corporate strategy. A copy of the presentation will be made available to all of our shareholders via the ASX announcements platform and our company website.

I would like to reassure our investors that there will be no major deviations from the current course and that the Group will be looking to build on the strategic pillars outlined at the Macquarie conference in May. In particular, we will be focused on:

- Delivering a seamless omni retail experience for our customers
- Integrating our supply chain to deliver lower costs, reduced working capital and increased utilisation
- Simplifying our conglomerate model to remove inefficiencies arising out of duplication and legacy systems
- Improving customer analytics to enhance our single view of customer, personalise our marketing and increase our promotional effectiveness; and
- Leveraging our powerful retail brands to create new profit pools and improve gross margin

Going forward, our primary focus will be on achieving organic growth in our existing brands and optimising returns to shareholders through the disciplined allocation of capital.

The Year Ahead

Growing businesses in high-involvement categories with engaged and capable team members who share our customers' passion remains the hallmark of Super Retail Group. It is how we will continue to win in an omni-retail world.

While the retail landscape is changing and competition is increasing, I am confident that Super Retail Group has a bright future. We own four powerful brands with leading market positions in the growing high-involvement lifestyle categories of Auto, Sports, Leisure and Adventure. We have over six million active loyalty club members. We are growing our online market share and we have the scale to share the cost of our investment in our omni retail platform across a business which, this year, generated over $2.7 billion in sales from over 46 million customer transactions.

In the coming year we will leverage this strong position with a specific focus on building brands that are as powerful as the products we sell, greater digitisation, supply chain integration and a seamless omni-retail experience. With the right strategy in place, and an experienced management team focused on executing that strategy, we are well positioned to grow our market share and create value for our shareholders.

In closing, I would like to thank all of our shareholders for their continuing support for the Company and now hand back to Sally.