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Thursday, 20 February 2020

ASX/Media Announcement

Super Retail Group reports half year results

Super Retail Group Limited (ASX:SUL) today announced Group Earnings Before Interest and Tax (pre AASB 16) for the first half of $115.4 million, at the top end of the provisional earnings guidance range announced on 20 January 2020

Key features of the result include:

- The Group delivered total sales of $1.44 billion (up 2.9% on the prior comparative period) and like-for-like sales growth of 1.7%, despite the impact of bushfires and drought on the peak trading period;

- Solid top line growth for both Supercheap Auto (3.7%) and Rebel (3.6%) which together contributed 89% of brand EBIT;

- Continued omni-retail momentum with record Black Friday/Cyber Monday weekend sales and online sales growth of 22%;

- Strong operating cash flow of $239.1 million (pre AASB 16), supporting a $42.2 million reduction in net debt; and

- Interim dividend of 21.5 cents per share, fully franked, in line with the prior comparative period

Positive trends in the first half included:

- The Group achieved strong gross margin momentum in the second quarter;

- BCF gross margin performance stabilised through the half, despite sustained competitive intensity;

- All of the core four brands delivered online sales growth in excess of 20% and increased their online marketshare;

- Group average club member net promoter score (NPS) increased and the total number of active club members grew to over 6.4 million; and

- Supply chain costs per unit decreased year-on-year

Chief Executive Officer and Group Managing Director, Mr Anthony Heraghty said “We are pleased with the start we have made to the second half, following a challenging first half.

With the extraordinary weather events of the summer behind us, we are continuing to see a number of positive trends in the business. Sales momentum has improved in three of our four brands (Supercheap Auto, Rebel and Macpac). Online sales, which represent more than 8% of total sales, have increased by 22% and click and collect is growing faster than home delivery. More than 96% of Group sales involve a customer coming into store, which means we can leverage the scale and convenience of our national store network to grow sales while minimising our cost to serve. I am also delighted to report that our supply chain costs per unit are decreasing. Our focus on supply chain integration and business simplification is delivering efficiencies which will reduce our cost of doing business."

SUPERCHEAP AUTO

Sales increased by 3.7% to $550.7 million, driven by like-for-like sales growth and contribution from new stores. Like-for-like sales growth of 2.4% was driven by growth in average transaction value.

Auto maintenance delivered the strongest category growth. Like-for-like sales growth was achieved in all categories except tools and outdoors, which continues to face strong competition.

Gross margin momentum improved in the second quarter.

Segment EBITDA increased by 1.6% to $75.5m. EBITDA growth was dampened by higher store labour costs driven by increased investment in hours and increased wage costs.

Segment EBIT increased by 0.4% to $57.3m and was impacted by higher depreciation and amortisation expenses.

Online sales grew by 24% to $37.2 million.

Active Club Plus membership increased by 13% to 1.7 million with club member sales representing 40% of Supercheap Auto sales. Average club member Net Promoter Score (NPS) was 63%, up from 60% at December 2018.

Supercheap Auto opened three new stores and closed one store during the period, with 325 stores in total.

REBEL

Sales increased by 3.6% to $542.8 million. Like-for-like sales growth of 3.3% was supported by transaction growth and increased units per sale which drove higher average transaction value.

Footwear and hardgoods were the strongest performing categories.

Rebel delivered stronger sales and gross margin performance in the second quarter.

Segment EBITDA increased by 0.3% to $68.4m. EBITDA growth was dampened by higher store labour costs, driven by increased investment in hours and increased wage costs.

Segment EBIT declined by 1.3% to $53.7m and was impacted by an increase in D&A reflecting increased investment in omni-retail capability.

Online sales grew by 21% to $59.3 million.

Active club membership increased by 8% to 2.75 million, with club member sales representing 65% of Rebel sales. Average club member Net Promoter Score (NPS) was 60%, up from 57% at December 2018.

Rebel closed one store during the period, resulting in 160 stores at period end.

BCF

Total sales increased by 0.7% to $283.5 million.

Like-for-like sales decreased by 0.5% primarily due to the impact of extreme weather events in the peak trading period. More than 50 BCF stores were directly impacted by bushfires and drought and this led to a downturn in customer demand for outdoor products, especially in the camping category. BCF stores not impacted by fire/drought delivered 3.0% like-for-like sales growth.

While levels of competition and promotional intensity remained high, BCF gross margin stabilised late in the second quarter.

Segment EBITDA and Segment EBIT were both lower than the prior comparative period as a result of the like-for-like sales decline.

Online sales grew by 22% to $23.7 million.

Active club membership increased by 8% to 1.52 million, with 82% of BCF sales coming from club members. Average club member Net Promoter Score (NPS) was 64%, up from 58% at December 2018.

BCF opened four stores and closed one store, resulting in 139 stores at period end.

MACPAC

Sales fell by 0.9% to $66.5 million as a result of 7.0% decline in like-for-like sales.

In Australia, Macpac like-for-like sales decreased by 9.5% as a result of the impact of summer bushfires on peak trading, with Victoria and NSW worst affected. New Zealand like-for-like sales fell by 2.9%.

Cost inflation driven by depreciation of the NZD against the USD reduced gross margin. Sales in the period were impacted by a change in promotional strategy due to margin pressures and a delay in price increases. Eventual price increases offset currency impact and normalised gross margin in the second quarter.

Segment EBIT decreased to $2.3 million and EBIT margin declined due to lower sales and gross margin.

Online sales grew by 27% to $6.6 million. Click and collect is now operational in all Australian stores.

Active club membership increased by 34% to 0.47m and club members represented 69% of Macpac sales. Average club member Net Promoter Score (NPS) was 67%.

During the period, Macpac opened three stores, resulting in 73 stores at period end.

GROUP AND UNALLOCATED

Group unallocated costs of $10.0 million were in line with the guidance provided by the Group in the January 2020 trading update.

CASH FLOW AND NET DEBT

Operating cash flow (pre AASB 16) was $239.1 million, $3.7 million higher than the prior comparative period.

Total capital expenditure of $37.9 million was $2.9 million below the prior comparative period and included $29.3 million spent on omni-retail and IT projects and $8.6 million spent on new stores and refurbishments.

Closing net debt of $251.8 million (pre AASB 16) was $42.2 million below the prior comparative period, reflecting strong operating cash flows.

The Group's fixed charge cover (based on normalised EBITDAL) remained steady at 2.1 times.

OPERATING UPDATE

Enterprise Agreement

The Enterprise Agreement (EA) for retail and clerical team members was approved by the Fair Work Commission in February 2020. The Group previously flagged that the incremental wage inflation resulting from the EA is expected to have an EBITDA impact of approximately $9 million in its first year of operation. In anticipation of the approval of the EA, the Group activated higher penalty rates for all eligible team members in April 2019 and recognised the base rate for all team members from mid December 2019. As a result, approximately one third of the estimated wage inflation impact has already been absorbed by the Group, with the remainder to be incurred over the course of calendar year 2020.

Team Member Underpayment Remediation

The Group has updated its total estimate for team member back payments from $53.2 million as at 29 December 2018 to $61.2 million as at 28 December 2019, excluding execution costs. The estimate increase of $8.0 million since December 2018 has resulted in a $9.5 million after tax expense in the current six month period. The movement in this estimate has two elements. The total amount of retail manager and set-up team member underpayments is lower than initially estimated. Offsetting this decrease is the identification of additional team members also impacted by overtime underpayments. Costs to execute the remediation of $3.1 million after tax have been incurred in the period. Total costs to execute the remediation including the prior period were $8.6 million after tax. Ongoing remediation execution costs will be expensed as incurred.

Coronavirus (COVID-19)

A significant proportion of the Group's products are sourced from China, across all of its brands. The Group currently only sources from two factories located in the city of Wuhan in the province of Hubei, which supply products to Rebel and Macpac. There is no expectation of a material impact on availability of product in the short term given current inventory levels. The Group will continue to monitor ongoing developments in China and undertake appropriate contingency planning.

SECOND HALF 2019/20 TRADING UPDATE

Group like-for-like sales are as follows:

	H1 (weeks 1-26)	H2 (weeks 27-33)	Year to date (weeks 1-33)
Supercheap Auto	2.4%	3.1%	2.6%
Rebel	3.3%	5.8%	3.8%
BCF	(0.5%)	(8.0%)	(2.1%)
Macpac	(7.0%)	(0.4%)	(5.8%)

Mr Heraghty said "Overall, it has been a positive start to the second half. Supercheap Auto and Rebel have traded well in the new calendar year, with accelerating like-for-like sales growth."

Macpac's performance has also improved with small format stores achieving positive like-for- like sales growth in the first seven weeks of the second half. The Group maintains expectations, assuming normal weather conditions, that Macpac second half EBIT will be higher than the $5.5m delivered in the prior comparative period.

The performance of BCF reflects subdued demand in the camping and outdoors category, following an unprecedented summer bushfire season. BCF trading remained soft in the key month of January, which typically contributes the majority of second half BCF earnings.

The Group expects unallocated costs in the second half will be lower than in the first half.

TELECONFERENCE DETAILS

A teleconference for analysts and institutional investors will be held today at 10.30am (Sydney time). Details for this teleconference are set out below:

Conference ID: 9838988

Country	Direct	Toll Free
Australia	+61 2 8038 5221	1800 123 296
Canada		1855 5616 766
China		4001 203 085
Hong Kong		3008 2034
Japan		0120 994 669
New Zealand		0800 452 782
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United Kingdom		0808 234 0757
USA		1855 293 1544

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The release of this announcement has been authorised by the Super Retail Group Limited Board.