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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 for the 26 week period to 27 December 2014 of $33.6 million and, after adjusting for restructuring costs, net profit after tax of $58.1 million.

Result headlines include:

- Group sales increased by 5.7% driven by the Sports and Auto Divisions with like for like growth at 6.1% and 2.1% respectively.
- EBITDA grew by 4.6% in the Sports Division and 1.7% in the Auto Division.
- Improving like for like sales trends throughout the first half in the Leisure Division supporting expectation of positive growth in the second half.
- Costs of $26.9 million associated with the planned exit of the FCO Fishing Camping Outdoors business and the restructuring of the Ray's Outdoors business.
- $47.3 million invested in future growth in new and refurbished stores and the development of multi-channel business capabilities.
- New Sydney and Brisbane distribution centres operational in line with plan.

The Directors declared a fully franked interim dividend of 18.5 cents per share. The dividend will be paid on 2 April 2015 with a record date of 2 March 2015. The company will again provide shareholders with the opportunity to reinvest their dividends through the Dividend Reinvestment Plan.

Super Retail Group Managing Director and Chief Executive Officer, Mr Peter Birtles, said the overall Group results were reflective of a solid contribution from the Auto and Sports divisions offset by a lower contribution from the Leisure Division and higher depreciation and amortisation costs.

"The Auto Division delivered a solid result having trialed a number of new marketing and promotional activities during the half year which have had a mixed effect on both top line and gross margin. We will be applying the learnings from these trials in the second half," he said.

“As expected, the Leisure Division continued to see like for like sales fall below last year as a result of cannibalisation and the mining sector slowdown but as forecast this impact began to diminish as the half progressed. Importantly, the business increased gross margins through more effective promotional management.”

“The recovery in sales momentum in the Sports Division was particularly pleasing highlighting that the system issues encountered in the prior financial year have been largely addressed. Having rebuilt sales momentum, the Division will broaden its focus towards lifting gross margin and reducing inventory in the second half.”

“We continue to make positive progress in developing our multi-channel capabilities. The new Sydney Distribution Centre was fully operational in April 2014 and the new Brisbane Distribution Centre commenced operations this month. The investment made in supply chain and IT across the Group has driven the 24% increase in Group and Divisional depreciation and amortisation charges.”

AUTO RETAILING

Sales increased by 4.0% to $431.5 million.

Like for like sales growth was 2.1%, building on like for like growth of 2.3% in the prior comparative period. During the 26 week period, the Division opened six new stores and refurbished 13 others, resulting in 297 stores trading at the end of December 2014.

EBITDA grew by 1.7% to $55.4 million, with the EBITDA margin decreasing by 0.3% points.

Gross margins increased by 0.1% points over the prior comparative period as the Division benefited from its continued focus on product range management, private brand development and sourcing initiatives to offset the impact of the weaker Australian dollar.

Operating costs, as a percentage of sales, increased by 0.4% points reflecting higher property and team costs partly offset by continued savings in marketing and administration.

LEISURE RETAILING

Sales decreased by 1.6% to $302.1 million, with like for like sales declining by 5.1%.

Three new BCF stores were opened during the 26 weeks bringing total stores across the division to 187 at the end of December 2014. The like for like sales trend improved during the half, being negative 8% for the first 16 weeks and then negative 2.3% for the final ten weeks of the half as the impact of new store cannibalisation diminished.

EBITDA before business restructuring costs fell by 6.8% to $29.0 million with EBITDA margin decreasing by 0.5% points.

Gross margin increased by 1.1% points reflecting a strong focus on promotional margin management in the lead up to Christmas, particularly in the BCF business.

Operating costs, as a percentage of sales, were 1.6% points higher than the prior comparative period driven by a decline in operating leverage as a consequence of the negative like for like sales growth.

SPORTS RETAILING

Sales increased by 13.9% to $421.5 million.

Like for like sales increased by 6.1% over the 26 week period with particularly strong growth towards the end of the half.

Three Amart Sports stores were opened and one Workout World ex-franchise store was acquired. One Rebel and one Amart Sports store were closed. The Division had 168 stores trading by the end of December 2014.

EBITDA grew by 4.6% to $48.3 million with EDITDA margin lower by 1.0% points.

Gross margin at 45.1% was 1.2% points below the prior comparative period with 0.5% points arising from the investment in driving like for like sales to such a strong outcome in the Rebel and Amart Sports businesses and 0.7% points resulting from the lower margin Infinite Retail business which has been consolidated into the Division's results for the first time.

Operating costs, as a percentage of sales, were slightly below the comparative period.

GROUP AND UNALLOCATED

Group costs at $9.0 million were $2.4 million higher than the prior comparative period. The increase was driven by costs associated with increases in corporate costs, unutilised distribution centre space, the review of the Ray's Outdoors and FCO businesses and an external review of the Group's change management approach.

The Group completed the acquisition of 51% of the Fixed Price Car Service business, an online car servicing and maintenance booking and comparison site, in December 2014.

CASH FLOW AND NET DEBT

Operating cash flow pre store investment and business acquisition costs at $148.9 million was $23.2 million lower than the prior comparative period. Inventory levels continue to be too high across the Group particularly in the Leisure and Sports divisions and it is expected that levels will reduce in the second half of the year.

Closing net debt of $337.2 million was $43.8 million higher than at the end of December 2013, reflecting the increased investment in inventory. The Group invested a further $25.8 million in new and refurbished stores during the half and $21.5 million in general capital expenditure projects mainly associated with multi-channel business capability development.

Net debt is comfortably within the Group's facility limits and all associated banking covenants have been achieved. During the period the Group modified its core debt facility by increasing the facility to $635 million and extending tenor on improved terms.

LOOKING AHEAD

Mr Birtles said the second half had started well for the Group, with solid sales growth and a focus on lifting gross margin.

“Like for like sales growth has been circa 3.5% in the Auto Division, circa 6.5% in the Leisure Division and circa 9% in the Sports Division for the first seven weeks of the second half,” Mr Birtles said.

“We will be focusing on lifting gross margin but we need to be careful to manage the trade off with sales momentum in an environment in which customer confidence is still patchy. Our ability to manage this trade off will be critical in generating EBITDA margin outcomes.”

“Compared to our plans at the start of the year, we expect to incur up to $6 million in additional Group projects costs as we implement recommendations from the change management review, we invest in the Fixed Price Car Service business and we incur some further costs on the development of the Ray’s Outdoors business.”

“We plan to continue to grow and strengthen our store network, opening five Auto stores, opening three and closing five Leisure stores (outside of the FCO business) and opening six and closing two Sports stores during the second half.”

LEISURE RETAILING RESTRUCTURE

The Group has recently completed a strategic review of the performance and potential of the Ray’s Outdoors and FCO businesses.

The review identified that the Ray’s Outdoors business has the potential to deliver strong growth and return on capital with a successful repositioning of the business, its brand, its product ranging and the format and location of a number of its stores.

The outdoor products retail market is estimated to be circa $3.5 billion with customers increasingly looking to engage in ‘adventure’ activities rather than ‘leisure’ activities. In 2012, Australians were estimated to have spent 43.5 million nights at a caravan park or camping ground or in a caravan or tent on private land.

The Group has determined that there is a gap in the market for ‘an Australian adventure for all’ retail offering built around a wide range of quality outdoor products at constant fair value. The addressable market for the business is estimated at between $1.8 to $2.0 billion.

The proposed positioning for the Ray’s Outdoors business complements the positioning of the BCF Boating Camping Fishing business with its focus on male customers with a passion for fishing. The customer crossover across the two businesses has been estimated at between 15% and 20% based on internal loyalty card data and external credit card spend data.

The Group has established a team to work on the development of the new Ray’s Outdoors business model and this team will be working on finalising the details of the new business’ branding, product range and marketing over the next six months. The Group is expecting to test three new format Ray’s Outdoors stores in the first half of the 2015/16 financial year.

A number of existing Ray’s Outdoors stores will not support the future model and the Group expects to close or relocate five existing stores before the end of the 2014/15 financial year. The Group will also accelerate the clearance of certain product ranges that do not match the future business model. The Group has made associated restructuring provisions of $7.7 million.

The strategic review identified that there were opportunities to improve the performance of the FCO Fishing Camping Outdoors business but that it was very unlikely that the business would achieve the Group’s return on capital hurdles within a reasonable time period.

The Group has therefore decided to exit the FCO business with an objective of ceasing operations by the end of the financial year. The Group has made associated provisions of $19.2 million of which $6.1 million relates to inventories, $5.7 million relates to fixtures and equipment and $7.4 million to onerous leases.

Mr. Birtles said that the decision to close the FCO business some three years after the first stores opened was disappointing.

"Our initial approach of developing a business specifically for the New Zealand market has proven to be flawed and FCO has always battled to get the attention it required while we have been addressing challenges in our BCF and Ray's Outdoors businesses. We intend to focus on the plans to build the performance of both BCF and Ray's Outdoors in Australia for the next few years", said Mr. Birtles.

Following confirmation of the strategic direction of the Leisure Division, the Group has appointed Anthony Heraghty to be the new Managing Director of the Leisure Retailing Division. Anthony is an experienced executive who has worked in a number of general and marketing management roles across Pacific Brands, Fosters and marketing agencies. Anthony will commence in his new role in April.

Mr. Birtles said that he was delighted to be appointing someone with Anthony's broad experience of leading the development of customer and brand strategies.

"We feel that it is critical that we shift the prime focus of our Leisure Retail Division from product onto the customer and Anthony has demonstrated a strong track record in this area. At the same time he has a clear understanding of the importance of effective supply chain and sourcing arrangements and has led strong improvement initiatives in those areas in his most recent roles. We are very pleased to welcome Anthony to our team."

ENDS

Further information:	Mr Peter Birtles Group MD and CEO Super Retail Group 07 3482 7500	Mr David Burns Chief Financial Officer Super Retail Group 07 3482 7500

Peter Birtles and David Burns will be presenting the results by teleconference today at 10.00 am (daylight saving time). To listen to this presentation go to the Boardroom Radio website (brr.com.au)

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