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26 February 2016

## ASX / Media Announcement

# Super Retail Group reports half year results

***Super Retail Group Limited (ASX:SUL) today announced net profit after tax attributable to owners of $44.9 million for the 26 week period to 26 December 2015 and, after adjusting for brand name impairment, normalised net profit after tax of $58.9 million.***

Key features of the result include:

- Net profit after tax attributable to owners of $44.9 million up by 33.6% while normalised net profit after tax of $58.9 million down by 2.2%
- Solid underlying sales growth across the Group with the Auto, Leisure and Sports Divisions delivering total sales growth of 6.1%, 4.1% and 7.2% respectively
- Auto and Sports Divisions performing strongly with Segment EBIT growth of 10.2% and 9.5% respectively
- Leisure Division building sales momentum but investment in competitive pricing, stock clearance and higher sourcing costs resulted in Segment EBIT declining by 40%
- Early performance of converted new format Rays stores is promising, collectively achieving targeted like for like sales increase
- Review of location suitability and first half underperformance of older format Rays stores have resulted in $20 million non-cash impairment of the Ray's Outdoors brand name
- $3.9 million investment in start-up digital businesses and development of Group digital capability included in Group Costs
- $53 million cash invested in future growth in new and refurbished stores
- Strong working capital management with operating cash flow of $177 million, 26% higher than the prior comparative period
- Interim dividend of 20 cents per share, an increase of 8.1% over the prior comparative period

Super Retail Group Managing Director and Chief Executive Officer, Mr Peter Birtles, said that the Group's results demonstrated that its strategic initiatives are delivering positive outcomes and that it is on track to deliver long term growth.

"The strong performance of the Auto and Sports Divisions is reflective of the work we are doing to inspire and engage our customers, through investing in store refurbishment, extending our service offering, developing our on-line channels and focusing on more tailored marketing," Mr Birtles said.

"We are seeing improvements in shelf availability and lower stock levels resulting from our investment in supply chain capability. The resulting strong operating cash flow performance has supported our continued investment in new and refurbished stores as well as our supply chain and digital capability."

"The Leisure Division is undertaking a significant transformation and we have been encouraged by the improved sales performance of the BCF business and the early performance of the converted Rays stores."

"We are now focused on sustaining the sales momentum of the BCF business while also improving gross margin through optimising product range and pricing. We are also extending the trial of the new format Rays stores."

"We have continued to invest in our start-up digital businesses, such as Fixed Price Car Service and Youcamp, and in our broader Group wide digital capability. We also continue to make positive progress in embedding our new supply chain facilities and systems, achieving savings in freight costs. The focus is now on delivering distribution centre productivity improvements."

**AUTO RETAILING**

The Auto Division delivered a very pleasing result with improvements in all the key trading metrics including transaction and unit numbers, gross margin and operating costs as a percentage of sales.

The Division also successfully managed the impact of higher sourcing costs in maintaining competitive pricing in the market and delivering both solid like for like sales growth and gross margin improvement.

Sales increased by 6.1% to $457.7 million with like for like sales growth of 3.9%. Transactions grew by 1.6% and units per transaction grew by 0.6%.

During the 26 week period, the Division opened seven new stores, closed one temporarily due to fire and refurbished 28 others, resulting in 306 stores trading at the end of December 2015.

Segment EBIT grew by 10.2% to $48.7 million, with the Segment EBIT margin increasing by 0.4%.

Gross margin increased by 0.3% 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, decreased by 0.2% reflecting the operating leverage of growing like for like sales at greater than 3%.

The Division continued to extend its customer offer and saw positive incremental contributions from the development of its in-store 'fitment' services and trade and online channels.

**LEISURE RETAILING**

The major focus of the Leisure Division has been to build sales momentum across the BCF business and test the new format Rays stores.

BCF delivered very strong total transaction and unit growth; however its investment in competitive every day pricing and increases in sourcing costs resulted in a decline in gross margin. The business has been successful in growing dollar market share and will now focus on optimising product range and pricing to increase gross margin.

The performance of the three converted Rays stores has been encouraging with like for like growth collectively outstripping the rest of the Rays network by more than the targeted 12%. Early customer reaction has also been positive.

This has supported our repositioning strategy for the business and we plan to trial a further five stores in the next six months. The Group will continue to monitor the performance of the trial over the next 12 months before making a decision on a wider rollout.

The trial has identified that we will need to relocate a higher number of older format stores to be in the catchment area for our target customers, and this alongside the underperformance of the older format stores has resulted in the Directors determining to write down the value of the Ray's Outdoors brand name and record a $20 million non-cash impairment.

Divisional sales increased by 4.1% to $302.3 million, with like for like sales increasing by 2.6%.

BCF delivered like for like sales growth of 3.1%. Total unit growth was 8.8% but average item value declined by 2.4% as a result of the investment in every day competitive pricing.

Rays delivered like for like growth of 1% driven predominantly by clearance in the first two months of the half.

Segment EBIT fell by 40% to $13.4 million with Segment EBIT margin decreasing by 3.2%.

Gross margin decreased by 3.1% reflecting the investment in every day competitive pricing as well as a 2.3% increase in average item cost in the BCF business and clearance activity in the Rays business.

Operating costs, as a percentage of sales, were 0.3% higher than the prior comparative period. This was due to the loss of leverage with like for like sales growth below 3% and the investment in establishing the new Rays format.

Four BCF stores and two Rays stores were opened during the 26 weeks bringing total stores across the division to 176 at the end of December 2015.

**SPORTS RETAILING**

The performance of the Rebel and Amart Sports businesses was particularly pleasing, maintaining strong like for like sales growth, increasing gross margin and reducing operating costs as a percentage of sales.

The Division assumed overall operational control of the Infinite Retail business in early November 2015 and implemented a number of initiatives to lift its profit performance.

Divisional sales increased by 7.2% to $452 million. Like for like sales in the Rebel and Amart Sports businesses increased by 6.1% compounding the similar growth delivered in the prior comparative period. Total transactions and average transaction value grew by 5.1% and 3.4% respectively.

Three Rebel and two Amart Sports stores were opened and two Rebel, one Amart Sports and three Workout World stores were closed during the period. The Workout World business was integrated within the Rebel business and its stores are being converted to the new Rebel Fit format. The Division had 163 stores trading at the end of December 2015.

Segment EBIT contribution from the combined Rebel, Amart Sports and Workout World businesses grew by 16.3% to $45.7 million with Segment EBIT margin increasing by 0.8%.

Gross margin of 46.1% was 0.2% higher than the prior comparative period reflecting range management initiatives and a reduced level of clearance activity. Operating costs, as a percentage of sales, were 0.6% below the comparative period benefiting from the strong like for like sales growth.

The Infinite Retail business contributed an EBIT loss of $3.1 million to the Sports Segment result. The Division has implemented a number of initiatives to build the performance of Fangear.com and to address the losses incurred in the sporting bodies and clubs business.

**GROUP AND UNALLOCATED**

Group costs of $11.6 million were $2.6 million higher than the prior comparative period. The increase was driven by $3.9 million invested in developing the Group's digital businesses; Fixed Price Car Service, Youcamp and Aussie Outdoors - as well as building our Group wide digital capability. It has been determined to expense rather than capitalise these costs given the level of uncertainty in the outcome of these new ventures.

The Group continues to carry excess storage costs of $4.1 million that will progressively be eliminated over time by business growth or exiting surplus distribution centre space.

**CASH FLOW AND NET DEBT**

Operating cash flow pre store investment was $197.2 million, a $48.3 million increase on the prior comparative period. We are seeing the benefits of our investment in inventory management systems with good progress in reducing inventory levels despite the impact of higher sourcing costs.

Closing net debt of $297.2 million was $40 million lower than at the end of December 2014, reflecting the improvement in inventory and both underlying improvements and timing benefits in trade payables. The Group invested a further $53.2 million in new and refurbished stores during the half and $12 million in general capital expenditure projects.

Net debt is comfortably within the Group's facility limits and all associated banking covenants have been achieved.

**LOOKING AHEAD**

Mr Birtles said the second half had started well for the Group, with like for like sales performance being broadly maintained in the Auto and Sports Divisions and lifting in the Leisure Division.

"Like for like sales growth has been circa 4% in the Auto Division, circa 12% in the Leisure Division and circa 5.5% in the Sports Division for the first eight weeks of the second half," Mr Birtles said.

"We are happy with the momentum of the Auto and Sports Divisions, which we expect will continue in the second half given no major external factors impacting consumer confidence."

"Our key challenge is to build the sales momentum of the Leisure Division while also lifting gross margin. This challenge is increased with the impact of higher sourcing costs and ongoing range changes so we anticipate that margins will continue to be lower in the second half. However, we expect that the initiatives underway will deliver positive momentum in margin into the next financial year."

"We plan to continue to grow and strengthen our store network, opening four Auto stores and three Amart Sports stores and closing the remaining four Workout World stores during the second half."

"Over the full year, we expect to expense rather than capitalise digital investment costs of $8 million. These costs will be recognised in an increase in Group Costs which are now anticipated to total $25 million for the full year although this will be compensated by a reduction in Capital Expenditure which is now projected to be $85 million compared to the $100 million forecast at the start of the year."

**ENDS**

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| Further information: | Mr Peter Birtles<br>Group MD and CEO<br>Super Retail Group<br>07 3482 7900 | Mr David Burns<br>Chief Financial Officer<br>Super Retail Group<br>07 3482 7900 |

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 our corporate website http://www.superretailgroup.com/investors-and-media/video-and-audio/

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| Media enquiries: | Ms Ilse Schache<br>Corporate Affairs Manager<br>Super Retail Group<br>07 3482 7500 |

## Appendix 1: Reconciliation of Normalised Net Profit after Tax

Items not included in Normalised Net Profit After Tax (Normalised NPAT) are one-off charges relating to business restructuring, non-continuing operations and impairment of intangible assets.

| For the period ended 26 December 2015 | Auto $m | Leisure $m | Sports $m | Total continuing operations $m | Inter-segment eliminations/ unallocated $m | Consolidated $m |
|---|---|---|---|---|---|---|
| **Segment Revenue and Other Income** | | | | | | |
| External segment revenue[1] | 457.7 | 302.3 | 452.0 | 1,212.0 | 3.8 | 1,215.8 |
| Inter segment sales | - | - | - | - | (0.3) | (0.3) |
| Other income | - | - | 0.7 | 0.7 | 0.1 | 0.8 |
| **Total segment revenue and other income** | 457.7 | 302.3 | 452.7 | 1,212.7 | 3.6 | 1,216.3 |
| **Segment EBITDA**[2] | 61.1 | 21.6 | 53.6 | 136.3 | (11.4) | 124.9 |
| Segment depreciation and amortisation[3] | (12.4) | (8.2) | (11.0) | (31.6) | (0.2) | (31.8) |
| **Segment EBIT result** | 48.7 | 13.4 | 42.6 | 104.7 | (11.6) | 93.1 |
| Net finance costs[4] | | | | | | (10.1) |
| **Total segment NPBT** | | | | | | 83.0 |
| Segment income tax expense | | | | | | (24.1) |
| **Normalised NPAT** | | | | | | 58.9 |
| Other items not included in the total segment NPAT[5] | | | | | | (14.0) |
| Loss from discontinuing operations | | | | | | - |
| **Profit for the period attributable to:** | | | | | | |
| Owners of Super Retail Group Limited | | | | | | 44.9 |
| Non-controlling interests | | | | | | (3.4) |
| **Profit for the period** | | | | | | 41.5 |

(1) Includes non-controlling interest (NCI) revenue of $4.3 million.
(2) Adjusted for NCI operating expenses of $2.6 million and the tax effected impairment charge for the Ray's Outdoors brand.
(3) Adjusted for NCI depreciation of $0.8 million.
(4) Adjusted for NCI interest of nil.
(5) Includes tax effected impairment charge for the Ray's Outdoors brand.

| Restated[1] For the period ended 27 December 2014 | Auto $m | Leisure $m | Sports $m | Total continuing operations $m | Inter-segment eliminations/ unallocated $m | Consolidated $m |
|---|---|---|---|---|---|---|
| **Segment Revenue and Other Income** | | | | | | |
| External segment revenue[2] | 431.5 | 290.5 | 421.5 | 1,143.5 | 5.1 | 1,148.6 |
| Inter segment sales | - | - | - | - | (1.5) | (1.5) |
| Other income | 0.2 | - | 0.2 | 0.4 | 0.6 | 1.0 |
| **Total segment revenue and other income** | 431.7 | 290.5 | 421.7 | 1,143.9 | 4.2 | 1,148.1 |
| **Segment EBITDA**[3] | 55.4 | 30.5 | 48.6 | 134.5 | (8.7) | 125.8 |
| Segment depreciation and amortisation[4] | (11.2) | (8.2) | (9.7) | (29.1) | (0.3) | (29.4) |
| **Segment EBIT result** | 44.2 | 22.3 | 38.9 | 105.4 | (9.0) | 96.4 |
| Net finance costs[5] | | | | | | (11.6) |
| **Total segment NPBT** | | | | | | 84.8 |
| Segment income tax expense[6] | | | | | | (24.6) |
| **Normalised NPAT** | | | | | | 60.2 |
| Other items not included in the total segment NPAT[7] | | | | | | (5.4) |
| Loss from discontinuing operations | | | | | | (21.2) |
| **Profit for the period attributable to:** | | | | | | |
| Owners of Super Retail Group Limited | | | | | | 33.6 |
| Non-controlling interests | | | | | | (0.5) |
| **Profit for the period** | | | | | | 33.1 |

(1) Restated for discontinued operations relating to the Fishing Camping Outdoors business, which ceased operations prior to 27 June 2015.
(2) Includes NCI revenue of $6.7 million.
(3) Adjusted for business restructuring costs for continuing operations of $7.7 million and discontinuing operations of $21.2 million; of which $19.2 million related to provisions and $2.0 million related to trading losses. Adjusted for NCI operating expenses of $0.3 million.
(4) Adjusted for expenses pertaining to discontinued operations of $0.5 million. Adjusted for NCI depreciation of nil.
(5) Adjusted for NCI interest of $0.2 million.
(6) The 2014 segment income tax expense of $24.7 excludes $2.3 million relating to the tax effect of business restructuring costs with a value of $7.7 million.
(7) Includes $7.7 million of business restructuring costs, the related income tax effect of $2.3 million.