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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 53 week period to 2 July 2016 of $62.8 million and, after adjusting for restructuring costs and brand name impairment, normalised net profit after tax of $108.6 million.

Key features of the result include:

- Full year sales for the Group increased by 8.2 per cent to $2.42 billion
- Group's Segment Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) at $245.7 million, an increase of 6.4 per cent
- Normalised net profit after tax increased by 2.2 per cent over the comparative period
- Auto and Sports Divisions performing strongly with Segment EBIT growth of 9.0 per cent and 18.6 per cent respectively
- Leisure Division delivered 7.1 per cent sales growth, but investment in competitive pricing, inventory clearance and higher product costs resulted in Segment EBIT declining by 42.4 per cent
- Restructuring costs of $45.8 million after tax associated with transformation of Rays and Infinite Retail businesses
- Strong working capital management with operating cash flow of $159.2 million up by $15.1 million on a like for like basis
- $81.3 million invested in new and refurbished stores
- Final Dividend of 21.5 cents, bringing the full year dividend to 41.5 cents and representing an increase of 3.8 per cent

It should be noted that the Group's results are for the 53 weeks to 2 July 2016 while the prior comparative period results were for the 52 weeks to 27 June 2015.

Super Retail Group Managing Director and Chief Executive Officer, Mr Peter Birtles, said:

"The overall Group result reflected continued strong performance in the Auto and Sports Divisions offset by underperformance in the Leisure Division and the investment being made in digital.

"The Auto and Sports Divisions both performed well, delivering strong like for like sales growth and lifting gross and EBIT margin. The results of the Leisure Division reflected the weaker performance of the BCF business in the first half and the continued under performance of the legacy Ray's Outdoors business. Pleasingly, BCF performed solidly during the second half and the overall contribution from new format Rays stores is in line with expectation.

"Underlying operating cash flow continues to be strong increasing by $15.1 million above the prior comparative period on a like for like basis. This has allowed the Group to both invest in growing core businesses with $81.3 million invested in new and refurbished stores but also to reduce average net debt through the year by 7 per cent to $405 million.

"Key measures that drive long term performance are on an upward trend. Improvement is evident in customer traffic and endorsement, and in team member safety and engagement across the Group. We have experienced strong growth in website traffic and e-commerce sales, and our Group Logistics team are delivering increased productivity.

"The transformation of the Ray's Outdoors and Infinite Retail businesses and the completion of the supply chain transformation project mean we have addressed issues that have constrained earnings growth in recent years. We have a portfolio of market leading businesses with capacity for significant top line growth through new stores and like for like growth, and for margin improvements driven by customer engagement, range and promotion management and supply chain productivity."

AUTO RETAILING

The Auto Division again delivered a very solid result with strong like for like sales growth of 4.4 per cent, driven in particular by transaction and unit numbers.

Sales increased by 8.0 per cent to $922.8 million, with sales growth strengthening further in the second half and particularly strong in Auto Maintenance. Digital sales increased by 84.0 per cent on the previous corresponding period.

EBIT grew by 9.0 per cent to $104.6 million, with the EBIT margin increasing by 0.1 per cent. This was driven by an increase of 0.4 per cent in gross margin reflecting ranging and promotional initiatives together with sourcing initiatives to offset the impact of the weaker Australian dollar. Depreciation increased by 0.3 per cent of sales reflecting accelerated depreciation of assets in refurbished stores.

During the reporting period, the Division opened eight new stores, temporarily closed one store due to fire, and refurbished 46 others, including 12 super stores, resulting in 307 stores at period end.

The brand's loyalty programs also continue to grow, with active Club Plus members now numbering over 1.1 million customers.

The Division's extension of its customer offer continues to realise positive incremental contributions from its fitment services and trade channels.

LEISURE RETAILING

Total sales grew by 7.1 per cent to $581.9 million, with like for like sales growth of 5.5 per cent in BCF and 1.3 per cent in Ray's Outdoors.

EBIT was $18.6 million which was 42.4 per cent below the prior comparative period. The performance of the BCF business improved in the second half of the year delivering an increase in EBITDA over the prior comparative period.

Adjustments to the business's pricing and promotion strategies saw BCF generating a like for like sales increase of 8.2 per cent in the second half compared to 3.1 per cent in the first half. This was driven by strong increases in transaction numbers and units per transaction.

BCF also achieved Gross Margin improvement during the second half, compared to the first half, through revised pricing and promotional strategies, delivering 1.4 per cent margin improvement compared with the first half.

The performance of the legacy Ray's Outdoors stores has continued to be disappointing, delivering negative like for like sales growth outside of clearance activity. The business generated a circa $7.0 million loss for the year. Further information on the transformation of the business is set out below.

Conversely, the performance of the converted Rays stores has been encouraging, collectively generating the targeted increase in sales and profit. This improvement has supported management's repositioning strategy for the business and a total of 17 stores will be converted to the new Rays format by the end of this calendar year.

Four BCF stores were opened, and one closed during the period. There was nil net change in the total number of Ray's Outdoors / Rays stores. At period end, there are 120 BCF stores and 53 Ray's Outdoors / Rays stores.

SPORTS RETAILING

Total divisional sales grew by 9.0 per cent to $910.2 million while total divisional EBIT grew by 18.6 per cent to $77.8 million.

The performance of the Rebel (inclusive of Workout World) 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 to deliver a combined 20.7 per cent growth in EBIT to $83.4 million.

Driven by total transaction growth of 3.2 per cent and average transaction value growth of 3.3 per cent, the Rebel and Amart Sports businesses grew sales by 9.5 per cent on the previous corresponding period to $882.4 million. Like for like sales growth was 6.3 per cent and solid across all categories, but particularly in footwear and apparel. Digital sales increased by 60.8 per cent on the previous corresponding period.

The increase in Rebel and Amart Sports EBITDA margin of 0.9 per cent to 11.9 per cent was driven by gross margin improvements and operating cost control.

The Division acquired overall control of the Infinite Retail business in early November, increasing ownership from 50.05 to 95.0 per cent. The business is now fully integrated into the Rebel operations, however, contributed an EBIT loss of $5.6 million in the period. Information on the transformation of the business is set out below.

Workout World was transformed during the period into Rebel's sub brand, Rebel Fit.

During the period, three Rebel and two Amart Sports stores opened, and three Rebel stores and one Amart Sports store were closed. There are 161 Rebel and Amart Sports stores at year end.

GROUP AND UNALLOCATED

Group costs at $25.7 million were $2.0 million higher than the prior comparative period. Investment in the Group's digital initiatives of $8.2 million have been expensed rather than capitalised due to the early development phases of these projects and the lack of certainty around future returns.

Unallocated costs include corporate activities, un-utilised Distribution Centre (DC) space and continued investment building the Group's digital capability. The Group continues to carry excess storage costs 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 at $184.4 million was $26.1 million higher than the prior comparative period after adjusting for the impact of net cash flows in the 53rd week.

The Group's strong underlying operating cash flow performance has funded investment in new stores and operational capital expenditures, with new and refurbished store investment of $81.3 million. Store refurbishment returns continue to support the larger refurbishment programs in Auto and Sports. The Group invested a further $23.8 million in general capital expenditure projects.

Inventory performance has been sound with the Group holding average inventory per store investment to the same levels as the prior comparative period, despite the significant increase in purchase costs resulting from the weakening of the Australian dollar and the growth of the Group's private brand sourcing. The Leisure Division benefited from clearance programs in Rays and BCF, while the slight inventory increase in Sports was to support an increase in sales and ensure a smooth July transition to new season merchandise.

Closing net debt of $400.2 million increased slightly due to timing of the financial close, as noted earlier. However, comfortable headroom remains within the Group's bank facility and capital requirements.

TRANSFORMATION INITIATIVES

In light of the continued underperformance of the Ray's Outdoors business, it was decided to accelerate the review of the business that had been announced in February 2015, as announced during the Group's Trading Update in May 2016.

Performance of the five stores trialing the new Rays concept has confirmed potential for a profitable business targeting outdoor adventure enthusiasts. Following a review of the 50 legacy Ray's Outdoors stores, it was determined 12 stores will convert to Rays stores, 17 stores will convert to one of the other Group brands and 21 stores will close prior to the end of this calendar year.

Total costs associated with the transformation of the Ray's Outdoors business will be $58.3 million of which $18.7 million relates to property commitments, $13.3 million to non-cash fixed asset write-offs, $6.3 million to other costs and $20.0 million to the impairment of the Ray's Outdoors brand name.

Approximately $110.0 million of the $135 million sales currently generated by the Ray's Outdoors business will be retained by the Leisure Division following the completion of the transformation. The annual EBIT benefit to the Leisure Division once the transformation is complete is estimated to be circa $8.0 million.

In November 2015, the Group increased its ownership share of Infinite Retail, an online sports merchandise business, from 50.05 per cent to 95.0 per cent. Following this change in ownership, the management of Infinite Retail has been integrated into Rebel. Governance processes have been improved and operating costs have been reduced. However, unprofitable contracts with sporting bodies and clubs and integration costs resulted in the business incurring an EBIT loss of circa $6 million (Net of Non-Controlling Interests) in the 2016 financial year. The business has also recognised total restructuring costs of $5.0 million in the 2015/16 accounts representing $3.0 million provision for onerous contracts, $1.5 million for write off of systems and $0.5 million other costs.

The restructure will enable Infinite Retail to contribute approximately $25 million sales at break-even EBIT to the Sports Division results in 2016/17.

2016/17 TRADING UPDATE

The Group has had a solid start to the new financial year with each Division delivering positive like for like sales growth despite some slowing in demand in the immediate aftermath of the Australian Federal election.

Like for like sales growth has been circa 3.5 per cent in Auto, circa 10.0 per cent in Leisure and circa 4.0 per cent in the Sports Division for the first seven weeks of the new financial year.

The clearance activity associated with the closure of Ray's Outdoors stores will boost like for like sales in that business while dampening like for like sales growth in the BCF business in the first quarter.

Mr Birtles commented that the Group was planning to open around 20 new stores across the Group in the coming year, in addition to the 17 Ray's Outdoors stores that will be converted into other Group brands.

"We expect that we will be able to augment our sales growth with improvements in profitability driven by supply chain productivity, merchandise management and the transformation of loss making activities," Mr Birtles said.

"As we head into a period of low inflation, it will be our ability to embrace the changing dynamics of the retail industry that will enable us to outpace the markets in which we operate. The macro trend towards solutions and services leaves the Group well-placed to capture the revenue, customer and margin growth offered by the shift from products towards the solutions-centric offering that's already well underway across the Group."

ENDS

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

Peter Birtles and David Burns will be presenting the results by teleconference today at 10.00 am AEST. To listen to a webcast of this presentation, visit the 'Video & Audio Presentations' section of the Super Retail Group corporate website at: http://www.superretailgroup.com.au/investors-and-media/video-and-audio/

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