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ASX Announcement

Super Retail Group – Trading and Strategy Update

Super Retail Group Limited (ASX:SUL) is today providing an update on the trading performance of the Group so far this financial year and on the transformation initiatives currently underway.

TRADING PERFORMANCE

The sales performance of the Group's three divisions up to 30 April 2016 has been as follows:

	Sales growth compared to prior comparative period		
	44 weeks to 30 April 2016		18 weeks to 30 April 2016
	Total(1)	LFL(1)	LFL(1)
Auto Retailing	6.0%	4.5%	5.0%
Leisure Retailing	5.5%	4.5%	7.0%
Sports Retailing	9.0%	6.0%	6.0%

(1) rounded to nearest 0.5%

The profit performance of the Group's three divisions has been in line with expectations. The Auto and Sports Retailing Divisions are continuing to deliver growth in EBIT margin over the prior comparative period. The Leisure Retailing Division continues to track below the prior comparative period reflecting investment in lower prices, higher purchase costs and inventory clearance.

Mr Peter Birtles, Group Managing Director and Chief Executive Officer, Super Retail Group, commenting on the positive momentum across all three of the Group's Divisions, said:

"Auto and Sports continue to perform very well, delivering strong like for like sale growth and increases in both gross and EBIT margin. We are also pleased with the recent strong sales performance from the BCF Boating Camping Fishing business with gross margins starting to lift as a result of rebalanced pricing and promotional strategies," Mr Birtles said.

"This performance reaffirms our confidence in the Group's strategy of focusing on improving the customer experience across our physical stores and digital channels, extending our offering into services, collaborating with trade partners to provide innovative and exclusive products and brands, improving the capability of our supply chain and technology and investing in engaging and developing our team."

TRANSFORMATION INITIATIVES

Ray's Outdoors to RAYS

In February 2015, the Group announced that it had undertaken a strategic review of the Ray's Outdoors business, which determined that the business has the potential to deliver strong growth and return on capital through a successful repositioning of the brand and its product ranging and a refresh of its store network to better align with its target market segment and customer demographics.

The revised strategy is to develop a market leading proposition in the $2.2 billion Australian adventure outdoor market with a core focus on providing engaging and inspiring solutions for its customers camping, hiking, paddling and adventure travel activities. To crystallise this new focus, the new business has been rebranded as RAYS.

The new RAYS store concept was developed and has been tested in five pilot stores which either opened or were refurbished in the second quarter of the 2015/16 financial year. These five stores were selected to test the new concept in a range of store locations and demographic areas.

The early trading performance of these pilot stores has confirmed that a profitable opportunity exists for the business, providing that it operates in locations that are convenient for its target customers.

While the performance of the new concept stores has been promising, the overall performance of the heritage Ray's Outdoors stores continues to be disappointing and the business is expected to generate an EBIT loss this financial year. This underlines the importance of implementing the transformation of Ray's Outdoors to RAYS promptly.

To progress the transformation, the business has completed a review of the performance and future potential of each Ray's Outdoors store in the context of the new brand proposition, local market demographics and the insights gleaned from pilot stores. The review has also assessed the opportunity to leverage the legacy Ray's Outdoors network to strengthen the store footprint of the Group's other retail brands.

Accordingly it has been determined that of the 55 Ray's Outdoors/RAYS stores operating at 31 December 2015:

- 5 pilot Rays stores continue as RAYS stores
- 12 stores will be converted into a new concept RAYS stores
- 15 stores will be convert to another Group brand
- 23 stores will either be transferred to other Group brands or closed, depending on the final outcome of the market assessment for those locations which is expected to be concluded by 30 June 2016

The Group will be focused on minimising the impact of these changes on its team members by looking to provide opportunities for team members in affected stores in other stores across the Group.

The total costs associated with the transformation of the Ray's Outdoors business will be $38 million of which $19 million relates to property commitments, $13 million to non-cash fixed asset write-offs and $6 million to other costs. These costs are in addition to the $20 million impairment of the Ray's Outdoors brand name already recognised in the half year accounts.

During 2016/17 the Leisure Retailing Division will incur $16 million of the transformation cash costs (the remaining $9 million will be incurred in future periods) and expend $8 million on refurbishing RAYS stores which will be partially funded by a working capital reduction of circa $12 million.

It is estimated that approximately $110 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 million.

Infinite Retail

In November 2015, the Group increased its ownership share of Infinite Retail, an online sports merchandise business, from 50 per cent to 95 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 will result in the business incurring an EBIT loss of circa $5 million (Net of Non-Controlling Interests) in the 2015/16 year.

Given the importance and long term value of successful partnerships with sporting bodies and clubs to the wider Sports Retailing Division, the business will look to renegotiate unprofitable contracts, however will continue to honour its contractual obligations.

The Division will also look to further reduce operating costs and achieve cost synergies by integrating Infinite Retail's technology platforms with the Rebel business.

The business will therefore further recognise 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.

Group Impact

Implementation of the two transformation initiatives as outlined above will require recognition of $43 million in transformation costs in the 2015/16 accounts of which $28.5 million are cash costs and $14.5 million are non-cash costs. The expected annual benefit to Group EBIT post completion of the transformation will be $13 million.

Mr Birtles underlined that these two initiatives would position the Group for a step up in earnings delivery by focusing Group resources and capital on realising profitable growth from its retail brands.

"Super Retail Group has a strong portfolio of retail businesses. The outlook for our three Divisions is favourable with each having opportunities to grow their network of stores, expand their digital businesses and drive profitability through sourcing, ranging and supply chain initiatives."

"We recognise the imperative of turning this potential into growth in total Group earnings and the transformation initiatives will enable us to exit loss making operations and target our financial goals of growing earnings per share by more than 15% per annum and increasing post tax return on capital to above 15%."

ENDS

Super Retail Group Managing Director and CEO, Peter Birtles, and CFO, David Burns, will provide a briefing on this announcement by teleconference today at 10.00 am AEST. A recording of this briefing will be available later today on our corporate website http://www.superretailgroup.com/investors-and-media/video-and-audio/

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