

22 August 2012

## ASX/Media Announcement

### Super Retail Group reports 50% increase in Net Profit after Tax

***Super Retail Group Limited (ASX:SUL) today announced a 50% increase in net profit after tax to \$83.5 million for the 52 week period to 30 June 2012.***

Result highlights include:

- A 51% increase in Group Sales to \$1.65 billion
- A 61% increase in the Group's EBIT to \$140.7 million
- A 13.5% increase in Earnings Per Share to 46.1 cents
- An underlying Net Profit after Tax of \$95.0 million, after adding back acquisition and integration costs
- Solid like for like sales growth achieved across all three of the Group's divisions
- Increased gross margins in the Supercheap Auto and BCF businesses
- Acquisition of the Rebel Sport and Amart All Sports businesses with effect from 30 October 2011
- Post tax return on capital of 18.8%

The Board has declared a fully franked final dividend of 19.0 cents per share, resulting in a full year fully franked dividend of 32.0 cents per share, an increase of 3.0 cents per share (10.3%) over the prior year. The final dividend will be paid on 3<sup>rd</sup> October 2012 with a record date of 31<sup>st</sup> August 2012. The current policy of distributing between 55% and 65% of underlying net profit after tax in the form of dividends allows the Group to balance investing in growth opportunities, gradually paying down debt and increasing dividends to shareholders.

Super Retail Group's Managing Director and Chief Executive Officer, Mr Peter Birtles, said that it was particularly pleasing that the Group has been able to maintain its progress and success and to report another strong set of financial results in the 40<sup>th</sup> anniversary of the company's foundation.

"Our strategy of organically developing our existing businesses and acquiring market leading retail businesses in relevant and connected retail categories has delivered strong results for the Group," he said.



“Each of our businesses retail products that our customers predominantly use as part of their leisure experiences – in many cases we are selling products to help our customers enjoy their passion whether it’s the car that’s their pride and joy, taking the family fishing or training to take part in a triathlon. We believe that this focus on our customers’ passions and leisure time has supported the strong performance of the Group despite the more widespread slowdown in retail spending.”

“The 2012 Financial Year has seen the Group take a major step forward with the acquisition of the Rebel Sport and Amart All Sports businesses at the end of October 2011. The early performance of the division has been encouraging and we are confident that we have acquired a combined business that, although already a market leader, has the potential for significant growth over the coming years.”

“Our focus on store development, sourcing and range management, supply chain improvements and business capability development has continued to drive the performance of the Auto and Leisure Retail businesses which have again enjoyed successful years. We have also made good progress in developing our integrated multi-channel retail capabilities including the Group wide launch of a customer contact centre, dynamic freight costing, a click and collect service and mobile enabled websites.”

“The foundation stone of performance across the Group continues to be our culture and the commitment and passion of our team members. We now employ around 11,500 team members across the Group and on behalf of all shareholders; we would like to thank all members of the team for their huge efforts and their ongoing contribution to our success.”

## **Group Results**

Sales grew by 51.4% to \$1.65 billion and profit after tax grew by 50% to \$83.5 million. This strong growth has been achieved through a combination of the organic growth of our Auto and Leisure Retail businesses and the post-acquisition contribution of the Sports Retailing businesses, which have been consolidated from 30 October 2011. Costs of \$11.7 million associated with the acquisition of the Sports Retailing businesses were expensed during the year. Excluding these non-recurring costs, profit after tax grew by 71%.

Solid like for like sales growth, continued underlying improvement in gross margins and further reduction in operating costs as a percentage of sales all contributed to the strong organic growth in profit in the existing businesses. This has been achieved through the continued focus on new product introduction, sourcing and supply chain initiatives, and the further development of the integrated multi-channel customer offer.

## **Auto and Cycle Retailing**

Divisional sales at \$755.8 million were 6.7% higher than the prior comparative period with like for like sales growth being 3.7%. Divisional EBIT at \$72.2 million was 13.5% higher than the prior comparative period.

The Supercheap Auto business has had another strong year with like for like sales growth of 3.9% and further expansion of EBIT margins, which are now running at over 10.5% of sales. Gross margin improvement was again a key contributor to the increase in profitability, growing by 0.3% points over the prior comparative period.

The business once again achieved like for like growth in transaction numbers, units sold and average unit value. The work done over the past six years to reposition the Supercheap Auto brand through the store refurbishment program, improved product quality and presentation and through partnering with the world's best automotive and tool product brands continues to drive this performance.

Nine new stores were opened during the year while two stores were closed and 41 stores were refurbished including three as Superstores. At 30 June the business had 281 stores with potential to grow to around 320 stores over the next five years.

Although the Goldcross Cycles business continued to track below expectations, many of the initiatives introduced over the last two years have generated positive outcomes. Gross margin improved by 6.4% points to 41.2% while inventory per store reduced by more than 20%. This reflected the successful launch of a number of private brand products, improvements in range management and a number of supply chain efficiencies.

However, like for like sales continued to decline by 3.2% partly through continued price deflation across the cycle market and partly through the planned scaling back of clearance promotions. The business EBIT loss was \$4.5 million, an improvement of \$2 million over the prior period.

The biggest impact on profitability continues to be the weak sales per square metre being achieved in the business, primarily as a result of the number of stores that are oversize. Consequently, we plan to convert the larger Goldcross Cycles stores into Amart All Sports stores and retain a 130m<sup>2</sup> to 150m<sup>2</sup> Goldcross Cycles outlet in these stores as a store within a store concept. It is expected that up to six stores will be converted in the coming year, which should see the business move closer to a break even position. The link to the Amart All Sports business and the fact that cycling is predominantly a sport and leisure activity will see the Goldcross Cycles business transfer to the Sports Retailing division in the coming year.

### **Leisure Retailing**

Divisional Sales at \$456.3 million were 18.8% higher than the comparative period with like for like sales growth across the division at 6.5%.

Divisional EBIT at \$32.8 million was 2.5% higher than the prior comparative period reflecting the \$2.5 million of costs associated with developing and launching the new FCO Fishing Camping Outdoors business in New Zealand in November 2011 and FCO's post launch trading losses of \$1.7 million. Excluding FCO, Divisional EBIT on a comparable basis grew by 15.6%.

BCF Boating Camping Fishing continued to perform strongly with high single digit like for like sales growth and an improvement in gross margin. BCF also achieved like for like growth in transaction numbers, units sold and average unit value. There are now close to one million members of the BCF Club – the businesses loyalty program.

Thirteen new BCF stores were opened during the year taking total store numbers to 91. Expectations for future total store numbers have increased to around 120 as the business expects to be able to operate a number of smaller format stores at around 800m<sup>2</sup> in regional locations.

Work started last year to refresh the Ray's Outdoors business and continued through this year. The business achieved low single digit like for like sales growth driven by

an increase in transaction numbers and average item value. However, gross margin was lower than the prior period as the business introduced a higher proportion of international branded product and cleared aged inventory.

The business opened seven and closed five stores during the year to bring total stores trading to 52. The business will commence a program of store refurbishments in the next year as the current store fit-out and design has become dated. The business expects to be able to extend its network to around 75 stores across Australia over the next 5 years.

The division launched its new business FCO Fishing Camping Outdoors in New Zealand in November 2011. The business takes elements of both the BCF and Ray's Outdoors businesses to provide a customer offer designed specifically for the New Zealand market.

By the end of the year, the business had opened 13 stores all in the North Island. It is management's plan to bed down and fine tune the performance of these stores before committing further capital to store roll-out. It is anticipated that there is the potential for up to 25 FCO stores.

Early performance was encouraging as the business traded well during the summer period but was slower than expected in the autumn/early winter period. Customer conversion and membership of the FCO loyalty program were pleasing whilst gross margins tracked ahead of expectations. Management is currently focused on building customer awareness of the business and of the breadth of its product offer.

### **Sports Retailing**

The Rebel Sport and Amart All Sports businesses were acquired with effect from 30 October 2011.

The contribution from the businesses during the balance of the year was ahead of expectations at the time of acquisition with divisional sales of \$441.9 million and EBIT of \$54.5 million.

The initial focus of management post acquisition has been to re-energise and engage the team, reduce aged inventory, establish a focus on like for like sales growth, rebuild relationships with trade partners, integrate the business within the Group and develop the strategies to grow the businesses over the next 5 years.

Good progress has been made in all of these areas. Like for like sales growth in the 35 weeks post acquisition was 5.8% which compared favourably to the 3% decline in like for like sales in the first 17 weeks of the year pre acquisition.

A major driver of the improvement in sales was the clearance of aged inventory which was reduced to around 5% of total inventory by the end of the year. Underlying performance was pleasing and reflected the more competitive pricing and promotional position adopted since acquisition. Sales growth was achieved primarily through growth in customer traffic and conversion while average transaction value was below the prior period reflecting the changes in pricing and promotion.

Gross margin at 46.8% was in line with that achieved prior to acquisition. The value of aged inventory at the time of acquisition was identified during due diligence and appropriate valuation adjustments were processed in the acquisition balance sheet.

The business closed the two stores trading under the brand Performance Sports with the space being reallocated to the Rebel Sport brand. Two Rebel Sport stores were opened post acquisition while one Rebel Sport store and one Amart All Sports store were closed. At 30 June, there were 91 Rebel Sport stores and 35 Amart All Sports stores trading across Australia. The business expects to be able to develop a network of around 100 Rebel Sport stores and 85 Amart All Sports stores.

The synergy benefits anticipated at the time of acquisition are on track with a number of purchasing and supply chain benefits already realised in addition to a reduction in executive management positions. The business will implement Super Retail Group's Enterprise Resource Planning system in the coming year and will begin to source a number of its own private brand products through the Group's International Operations team rather than through third party agents.

### **Group Costs**

Group costs were \$18.8 million for the period including \$11.7 million associated with the acquisition and integration of the Sports Retailing businesses. The balance of the costs include \$1.9 million in unutilised distribution centre, store and office space across the Group, \$0.8 million in multi-channel development costs and \$4.4 million of public company costs.

### **Group Logistics and Sourcing**

The Group has continued to invest in developing its logistics operations to provide more efficient support for its businesses. The warehouse management systems were successfully upgraded and towards the end of the year, the New Zealand logistics operations were successfully relocated into a larger distribution centre.

The Group's International Operations team based in China has again significantly increased its contribution with an increase in the value of product sourced directly to around \$85 million and through increasing the number of pre shipment inspections managed by the team. The team has also worked with its Australian colleagues to establish scan pack arrangements for apparel items to go direct to store from China. The team has also established a sport products sourcing unit to support the Sports Retailing division.

### **Review of Financial Position**

Cash flow from operations was \$135.2 million, an increase of \$64.3 million over the prior period, reflecting the growth in existing businesses plus the contribution of the Sports Retailing businesses post acquisition. Cash flow from operations pre investment in new store inventory and set up costs was \$179.7 million, \$84.4 million higher than the prior period.

Despite this pleasing performance, there remains significant opportunity to generate working capital efficiencies particularly in the Leisure Retailing division.

Group capital expenditure was \$60.2 million which included \$30.6 million in new and refurbished store fitout, \$13.1 million in multi-channel development projects, \$7.3 million in information technology projects, \$2.4 million in supply chain development projects, \$1.3 million in the Sports Retailing SAP project and \$5.5 million in general capital projects.

The Group extended its debt facilities to \$500 million at the time of the Sport Retailing acquisition and utilised \$296 million to partly fund the acquisition. The revised facilities include a number of tranches which are renewable at various intervals over the next two to five years. At the end of June, Group Net Debt was \$341 million, comfortably within the Group's facility limits and covenants.

### Looking Forward

Mr Birtles said that the Group expected to maintain positive sales and margin momentum despite the widespread concerns over the retail environment.

"We are confident that we can continue to deliver solid like for like sales growth even if retail conditions remain subdued," he said.

"We have made a strong start to the new financial year with like for like sales growth of at least 5% in all three of our divisions in the first seven weeks of the year."

"Our focus over the coming year will be to deliver sales growth, margin improvement and working capital efficiency of each of our existing businesses. At the same time, we will continue to work on developing our multi-channel capabilities to enable our businesses to provide our customers with an engaging offer that inspires them to continue to shop with us in store or on line at whatever time of day or at whatever location suits them."

"We expect to maintain our program of new stores and store refurbishments across the Group with around 10 new stores in each division. We will continue to develop our loyalty programs across the Group and increasingly use data analytics to develop relevant targeted marketing campaigns. We also plan to launch a new offer for the trade mechanic customer in our Auto Retailing division."

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For further information:	Mr Peter Birtles Managing Director & CEO Super Retail Group 07 3482 7500	Mr Gary Carroll Chief Financial Officer Super Retail Group 07 3482 7500
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Peter Birtles and Gary Carroll will be presenting the results by teleconference on 22 August 2012 at 10.00 am (AEST). To listen to this presentation go to the Boardroom Radio website ([brr.com.au](http://brr.com.au))

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