



Sports Division Strategy Update

24 July 2017

Overview

- ➔ Super Retail Group has a strategy of building businesses in high involvement categories. Since acquisition in 2011, the Group has successfully differentiated and grown the Rebel and Amart Sports businesses through focusing on different customer segments by assuming tailored ranging and price/promotional strategies.
- ➔ The Group has been undertaking a review of the strategy for its Sports Division recognising that the dynamics of the sports retail market are set to evolve in the next few years with changes in customer buying behaviour and increased competition from large international sports retailers and on-line specialists.
- ➔ The Group has concluded that the optimal strategy to sustain its position as the market leader in sports retailing in Australia and to deliver the best outcomes for customers, team members and shareholders will be to focus on building one retail brand – Rebel.
- ➔ The Group will commence a program of converting all Amart Sports stores to Rebel with a target of presenting one brand to market for Christmas 2017. The gross margin uplift and synergy benefits from the conversion are expected to reach an annualised \$15 million after two years and will provide capacity for re-investment in building the Rebel business and in sustaining a competitive offer as market dynamics change.
- ➔ The Group will report its results for the 2017 Financial Year on 25th August 2017 and confirms that it expects to report Group Segment EBIT at the upper end of previous guidance of 16% to 18% above the prior comparative period. The Group expects to recognise after tax non-cash costs of circa \$34 million associated with the conversion of the Amart Sports business as other costs not included in Total Segment NPAT. A further \$3 million of after tax cash transformation costs will be incurred in the FY2018 accounts. The capital investment in fitting out the converted stores will be circa \$9 million.

Historical Sports Division Strategy

The growth and development of the two businesses to a total network of up to 200 stores to achieve overall category authority with both businesses targeting different customer segments with differentiated ranging / promotional strategies and location / store experience strategies.

rebel

We are Australia's most inspiring and innovative sports store – dedicated to helping you achieve your personal best.

RANGE SERVICE KNOWLEDGE PASSION COMPETITIVE

- We provide the highest quality and most trusted sports brands
- Our expert team members are friendly and approachable
- Our team members are trained in specialist areas
- We deliver value on the best range of quality sporting products
- We lead in innovation with the newest and best product



The Robinsons



Rob and Rachel

AMART SPORTS

The biggest Sports brands at the best prices – making sports accessible, fun and affordable – everyone can have a go.

RANGE VALUE COMMUNITY SERVICE CONVENIENCE

- We provide the biggest sports brands for everyone in the family
- There is always great value backed by our price guarantee
- Friendly and knowledgeable team prepared to go above and beyond
- Making the shopping experience easy and accessible



The Andersons



Andy

Sports Division Performance Trends

The current strategy has delivered strong growth in revenue and profit since acquisition, supported by increasing customer and team engagement

Rebel & Amart Sports	FY13	FY14	FY15	FY16	FY17 ⁽²⁾
Store Numbers ⁽¹⁾	134	143	146	150	157
Sales (\$m) ⁽¹⁾	684	721	783	869	920
EBIT (\$m) ⁽¹⁾	79	66	74	87	92
Customer NPS	26%	35%	35%	43%	52%
Team Engagement	60%	64%	69%	69%	69%

(1) – excludes other Sports Divisions businesses – Goldcross Cycles, Workout World, Rebel Fit and Infinite Retail

(2) - provisional results subject to final accounting and audit review

Evolving Sports Retail Market

The dynamics of the sports retail market are set to evolve in the next few years with changes in customer buying behaviour and increased competition from large international sports retailers and on-line specialists.

CUSTOMER EXPECTATIONS

Customer expectations will continue to increase. They will expect to be able to shop how, when and where it suits them, have access to the widest and contemporary range of products at best internationally competitive prices and be inspired through experience, service and solutions.

GLOBAL COMPETITION

The competitive environment will change with the planned growth of Inter Sport, the launch of Decathlon and JD Sports and the impending arrival of Amazon. The emerging competition will bring stronger operational and customer offer capabilities and more competitive prices.

Implications for Sports Division Strategy

The Group has concluded that the optimal strategy to sustain its position as the market leader in sports retailing in Australia and to deliver the best outcomes for customers, team members and shareholders will be to focus on building one retail brand – Rebel.

- ➔ Super Retail Group's overall strategy is to win in market by providing solutions and engaging experiences that enable its customers to make the most of their leisure time. This approach is built upon a platform of ensuring that the core elements of the customer offer (range, value and delivery) are competitive.
- ➔ The Group aims to build businesses that are the first choice for their target customers. As customer expectations change and as new competition emerges it will be increasingly difficult to build a customer proposition that achieves market leadership in both the Rebel and Amart Sports businesses.
- ➔ In response to the changing competitive environment, Rebel will have to invest in competitive pricing to deliver on its stated customer promise of delivering value on the best range of quality sporting products – this will increasingly impinge on Amart Sport's value positioning which will in turn reduce the differential in the overall customer proposition of the two businesses.
- ➔ Customer research highlights that there is an increasing quantum of cross shopping across the Rebel and Amart Sports businesses with convenience of location being a major driver of store choice.
- ➔ There are significant synergy benefits available to the Group through focusing on one brand that can be reinvested in growing the Rebel business and in sustaining a competitive customer offer.

New Sports Division Strategy

The growth and development of the Rebel business to a network of up to 200 stores (1) delivering inspiring solutions and engaging experiences for all Australians...Rebel is the leading sports retailer in the country.

rebel

We are Australia's most inspiring and innovative sports store. Whether you are out there to achieve your personal best or just looking to 'have a go' rebel has the solution for you.

RANGE

SERVICE

VALUE

PASSION

INSPIRATION

CONVENIENCE

- We provide the best range of highest quality and most trusted sports brands
- We deliver value on the best range of quality sporting products from the worlds most trusted sports brands
- We lead in innovation with the newest and best product
- Our expert team members are friendly and knowledgeable and prepared to go above and beyond
- We make the shopping experience inspiring by bringing to life our passion for sport
- Shopping with rebel is easy and accessible



The Robinsons



Rob and Rachel



The Andersons



Andy

(1) Excluding other Sports Division store formats

Financial Impacts

The gross margin uplift and synergy benefits from the conversion are expected to reach an annualised \$15 million after two years and will provide capacity for re-investment in building the Rebel business and in sustaining a competitive offer as market dynamics change.

The Group expects to provide for after tax non cash transformation costs of circa \$34 million in the FY2017 accounts. A further \$3 million of after tax cash transformation costs will be incurred in the FY2018 accounts. The capital investment in fitting out the converted stores will be \$9 million.

GROSS MARGIN AND SYNERGY BENEFITS	Circa \$15 million annualised benefits after two years	- Gross margin uplift from range optimisation and reduction of underperforming categories (e.g., bikes) - Marketing efficiencies through focus on one brand - Administrative efficiencies
AFTER TAX CASH TRANSFORMATION COSTS	Circa \$3 million	- Property costs (\$2 million) - Other costs (\$1 million) - Will be recognised in FY18
AFTER TAX NON CASH TRANSFORMATION COSTS	Circa \$34 million	- Inventory clearance provision (\$2 million) - Fixture and Fittings write down (\$6 million) - Brand name impairment (\$26 million) - Will be recognised in FY17
STORE FITOUT	Circa \$9 million	- Amart stores will be resigned and refurbished to a format based on the benchmark standard of Rebel formats. Rebel has three standards: Accelerate, Elevate and Benchmark.

Key Risks & Mitigations

RISK	CONSIDERATIONS	MITIGATION
Customer Retention	The key drivers of customers who have a preference for Amart over Rebel are: • Store location • Value positioning • Friendly service • Store environment	The new strategy for the Rebel business will include initiatives to address these risks: • Store locations will be retained • Rebel will be adopting a stronger value message • Plan to adopt Amart service philosophies in Rebel • Rebel benchmark format consistent with Amart format • Targeted marketing campaign for Team Amart members
Brand Stretch	Potential of the Rebel brand to stretch from value to inspiration.	The Rebel brand operates successfully across a wide range of customer demographics in metro, suburban and regional locations. The four formats will enable the business to tailor its offer to the local market.
Team Member Retention	Amart Sports has a strong culture and there has been natural historical competition between the two brands.	The Division has a track record of successfully transferring team members between the two brands. The plan is focused on bringing the best attributes of both Rebel and Amart into the new Rebel business.
Format and Assortment Management	The combined business will operate with an increased number of formats and assortments. It will be important that the business can manage the increased complexity simply and efficiently.	The Sports Divisions merchandising systems are functional but require manual support. The Group is intending to enhance these systems over the next three years. In the meantime the synergy savings identified have been tempered by the resources required to properly operate current systems.