

Monday, 24 August 2020

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 52-week period to 27 June 2020 of \$110.2 million. After adjusting for items not included in total segment net profit after tax, and excluding the impact of AASB 16 Leases, normalised net profit after tax was \$154.1 million

Key features of the result include:

- Total Group sales of \$2.83 billion, an increase of 4.2 per cent on the previous comparative period (pcp)
- Online sales of \$290.5 million, an increase of 44.4 per cent on pcp
- Group like-for-like sales growth of 3.6 per cent
- Group segment earnings before interest, tax, depreciation and amortisation (EBITDA) of \$328.1 million, an increase of 4.3 per cent on pcp
- Group segment earnings before interest and tax (EBIT) of \$236.1 million, an increase of 3.5 per cent on pcp
- Normalised net profit after tax (NPAT) of \$154.1 million, an increase of 1.0 per cent on pcp
- Fully franked final dividend of 19.5 cents per share

Segment results exclude the impact of AASB 16 Leases to enable a meaningful comparison with the prior corresponding period.

Trading rebounded strongly during the fourth quarter, with 27.2 per cent Group like-for-like sales in May and June, reflecting pent-up demand for domestic travel, leisure and outdoor activities. Positive trading momentum across all four brands has continued in the first seven weeks of FY21 with Group like-for-like sales growth of 32.0 per cent and gross margin favourable to the pcp.

For personal use only

Super Retail Group Managing Director and Chief Executive Officer Anthony Heraghty said:

“We are very pleased with these results and the strong start to the new financial year. The Group’s omni-retail strategy has enabled our businesses to adapt quickly to changing consumer behaviour during COVID-19 and delivered a strong trading performance. Keeping stores open for our customers while successfully pivoting to meet increased demand in our online sales channels has enabled the Group to profitably navigate an extremely challenging period for retail and deliver 44 per cent annual online sales growth.

Our brands have established leading market positions in attractive lifestyle categories. We are well positioned to benefit from consumer trends emerging from the pandemic, including the channel shift to online, uptake in DIY auto repairs and household projects, increased focus on personal health and wellbeing, and greater demand for domestic travel and outdoor leisure activities.

Following our successful \$203 million equity raising, completed in July, the Group has a strong balance sheet, with no net bank debt, and is well positioned to execute our omni-retail strategy, optimise our footprint and take advantage of organic market share growth opportunities.”

ONLINE

Super Retail Group achieved strong growth in online sales from new and existing customers as in-store shoppers shifted to the online channel in response to COVID-19.

Group online sales increased by 44.4 per cent to \$290.5 million, representing 10 per cent of Group sales. Click & Collect represented 43 per cent of Group online sales.

During COVID-19, the Group’s omni-retail capability enabled it to respond quickly to changes in customer behaviour, which led to elevated levels of online demand. The Group successfully re-allocated store-based resources to our online business, introduced contact-free Click & Collect across all four brands and replaced catalogue campaigns with digital advertising.

As a result, Group online sales more than doubled in the fourth quarter compared to pcp, with Click & Collect representing 34 per cent of these sales.

More than one million customers made their first online purchase with the Group during FY20.

Pleasingly, during a period of accelerated online sales growth characterised by concentrated demand for specific products, customer satisfaction levels have improved with average club member NPS increasing to 60.7, up 1.8 per cent on pcp.

Mr Heraghty said ongoing investment in the Group’s omni-retail capability was continuing to position the Group well, given the recent acceleration in the shift towards online channels.

“This investment has supported 66 per cent CAGR in Group online sales over the past four years,” he said.

“During this period, the Group’s active membership base of 6.6 million has grown almost five-times faster than store numbers. Scalable growth is critical to our success and our ability to expand the Group’s customer base multiple times faster than our physical store network reinforces our conviction in an omni-retail strategy.”

SUPERCHEAP AUTO

Sales increased by 7.6 per cent to \$1,119.7 million. Like-for-like sales growth of 6.3 per cent reflected both transaction growth and increased units per sale driving higher average transaction value. Sales declined in April due to government restrictions but rebounded during the fourth quarter off the back of 33.6 per cent like-for-like sales growth in May and June.

Sales growth was strongest in Queensland, Western Australia and South Australia. All Australian states delivered positive like-for-like sales growth.

Trading in New Zealand was impacted by the closure of 45 stores for approximately seven weeks due to a government-mandated shutdown for COVID-19.

Gross margin was slightly lower than pcp and operating expenses as a percentage of sales were lower, benefiting from operating leverage due to strong sales.

Segment EBITDA increased by 11.9 per cent to \$174.7 million and EBITDA margin of 15.6 per cent was 0.6 per cent higher than pcp.

Segment EBIT increased by 11.9 per cent to \$134.9 million and EBIT margin of 12.0 per cent was 0.4 per cent higher than pcp.

Auto accessories and auto maintenance, which represent approximately three quarters of divisional revenue, were the strongest performing categories. Like-for-like sales growth was achieved in all categories including tools and outdoors.

Sales in Supercheap Auto reflected a shift towards essential, DIY auto and household project products during the peak COVID-19 lockdown period.

Online sales increased by 37 per cent to \$82.0 million. Online sales represented approximately 7 per cent of Supercheap Auto's total sales and Click & Collect accounted for more than 60 per cent of these online sales.

Supercheap Auto active Club Plus membership increased by approximately 4 per cent during the financial year to 1.71 million members. Sales attributable to club members increased to 40 per cent of total sales. Average club member NPS increased to 63 from 61 in the pcp.

During FY20, the business opened four new stores and closed one store. As at the end of the financial year, Supercheap Auto had a total of 281 stores in Australia and 45 stores in New Zealand.

REBEL

Sales increased by 3.3 per cent to \$1,038.6 million (excluding Infinite Retail) with like-for-like sales growth of 2.7 per cent, driven by higher average transaction value. Sales declined in April due to government restrictions, but rebounded during the fourth quarter following 9.1 per cent like-for-like sales growth in May and June. Sales growth in June was impacted by the annual June clearance sale being deferred to July due to a lower in-stock position.

Queensland and Western Australia delivered the strongest like-for-like sales growth.

Gross margin increased due to lower promotional activity. Operating expenses increased predominantly due to an increased share of group infrastructure, as the business fully

migrated into group distribution centres and expanded online. The operating expense increase partially offset gross margin expansion.

Segment EBITDA increased by 3.3 per cent to \$126.6 million and EBITDA margin of 12.2 per cent was 0.1 per cent higher than pcp.

Segment EBIT increased by 3.0 per cent to \$96.6 million and EBIT margin of 9.3 per cent was 0.1 per cent higher than pcp.

Fitness and hardgoods were the best performing categories, as COVID-19 restrictions led to strong demand for home fitness products. Apparel and footwear sales were impacted by lower foot traffic in stores due to COVID-19 but recovered during the fourth quarter as restrictions eased.

Online sales increased by 49 per cent to \$141.2 million reflecting the strong channel shift during COVID-19. Online sales represented approximately 14 per cent of total rebel sales and Click & Collect accounted for approximately 30 per cent of these online sales.

Active club membership increased by approximately 12 per cent during the financial year to 2.88 million members. Sales to club members increased to 66 per cent of rebel sales. Average club member NPS was 55.

During FY20, rebel closed one store. As at the end of the financial year, rebel had 160 stores.

The Infinite Retail business has been permanently discontinued. Infinite Retail delivered \$15.9 million of sales in the financial year representing a decline of \$10.8 million on pcp.

BCF

Sales increased by 4.0 per cent to \$535.0 million. Like-for-like sales grew by 3.0 per cent, driven by both increased transactions and higher average transaction value. Sales declined in April due to government restrictions particularly impacting the Easter holiday period but rebounded during the fourth quarter following 68.1 per cent like-for-like sales growth in May and June.

Western Australia and Queensland were the strongest performing states.

Fishing was the strongest performing category. Fishing, camping and apparel all delivered positive like-for-like sales growth, while boating sales declined modestly.

Gross margin declined compared to the previous period due to competitive intensity, while operating expenses as a percentage of total sales were consistent with the prior year.

Segment EBITDA decreased to \$34.9 million and EBITDA margin of 6.5 per cent was 1.3 per cent lower than pcp.

Segment EBIT decreased to \$15.7 million and overall EBIT margin declined from 4.0 per cent in the pcp to 2.9 per cent.

The BCF club loyalty program experienced strong growth with active memberships increasing by approximately 6 per cent to 1.54 million. BCF club members increased to 83 per cent of total BCF sales. Average club member NPS increased to 64 from 61 in the pcp.

Online sales grew by 33 per cent to \$45.3 million reflecting a shift to the online channel due to COVID-19. Online sales represented approximately 9 per cent of total BCF sales and Click & Collect accounted for just over two thirds of these online sales.

BCF opened four stores and closed one store during the financial year. As at the end of the financial year, BCF had 139 stores.

MACPAC

Sales fell by 5.0 per cent to \$131.9 million and like-for-like sales decreased by 9.1 per cent.

In Australia, like-for-like sales decreased by 9.7 per cent as a result of the impact of summer bushfires on peak Christmas trading and the impact of COVID-19 on store foot traffic during the key Easter trading period.

In New Zealand, like-for-like sales decreased by 8.2 per cent mainly due to the government mandated seven-week store shutdown. Sales recovered strongly once the shutdown was lifted.

Sales in both Australia and New Zealand rebounded during the fourth quarter with 7.8 per cent like-for-like sales growth in May and June.

Segment EBIT decreased to \$7.2 million and segment EBIT margin decreased to 5.5 per cent. The majority of this decline was recorded in the first half of the financial year.

Online sales increased by 83 per cent to \$22.0 million and represented approximately 17 per cent of Macpac sales. Click & Collect, which was only recently introduced in New Zealand stores, represented approximately 5 per cent of online sales.

Macpac club membership increased by approximately 10 per cent to 0.45 million and these club members represented 64 per cent of total Macpac sales. Average club member NPS was 67.

During FY20, Macpac opened three stores and closed one store. As at the end of the financial year, Macpac had 72 stores, comprising 62 small format stores and ten Adventure Hub stores.

IMPACT OF COVID-19

COVID-19 has had a significant impact on the Group since March 2020. There have been major shifts in customer purchasing behaviour from March, when restrictions were first put in place. Pre-emptive actions were initiated to protect team members, liquidity and profit. These actions have positioned the Group to trade through an extremely volatile period.

The Group traded all stores through this period, with the exception of stores that were government-mandated for closure including all New Zealand stores for seven weeks and three stores in Tasmania for two weeks. The Group was therefore able to provide permanent store-based team members with continuity of wages through this period whilst implementing appropriate safety procedures to protect team members and customers.

Specific actions taken to improve liquidity were announced on 26 March 2020, including the cancellation of the interim dividend of \$42.5 million. The Group secured an additional \$100 million debt funding facility. Project activity was suspended and all discretionary expenditure was curtailed. The Group was well supported by its trade partners who re-scheduled committed inventory purchases and provided extended payment terms. The Group also received support from its landlords by way of rent abatements and deferrals.

As a result of a significant decline in sales in April, Macpac Australia qualified for the Australian Government JobKeeper payment. The New Zealand operations of Supercheap

Auto and Macpac were impacted by government mandated store closures for seven weeks. The total of government wage support received in FY20 was \$6.5 million. The New Zealand government wage subsidy covered a 12-week period and ended in June 2020. The JobKeeper subsidy for Macpac Australia is expected to end in September 2020.

With regard to the impact of COVID-19 on all stakeholders, including the matters outlined above, the Board considered it appropriate to make a downward adjustment to the short-term incentive (STI) outcomes for all executive key management personnel.

The Group has also made the decision to make a one-off thank you payment of between \$250 and \$1,000 to permanent, frontline team members for their extraordinary efforts during COVID-19.

GROUP AND UNALLOCATED

Group costs for the period were \$18.3 million, which was \$1.8 million lower than the pcp. Group costs included corporate costs of \$12.1 million, \$3.4 million of un-allocated distribution centre costs and \$2.8 million relating to omni-retail development and digital investment.

CASHFLOW, NET DEBT AND FINAL DIVIDEND

Net cash inflow from operations has increased by \$205.8 million due to the change in treatment of rental expenses under AASB 16 Leases and an improvement in working capital. Excluding this impact, operating cash flow improved by \$164.0 million. This improvement was mainly driven by a lower net inventory investment, lease payment deferrals and a shift in tax payments. The benefits of these are expected to reverse in the next financial year.

Working capital investment declined \$118.2 million due to the significant decline in inventory of \$57.8 million, which was impacted by both COVID-19 liquidity management measures and the strong increase in sales in May and June. Trade payables and other payables increased by \$79.6 million due to a shift in purchases and improved trading terms agreed with major trading partners, rent deferral of \$18 million on certain leases and reduced tax payments of \$13.6 million.

Net debt of \$902.0 million included \$939.3 million of lease liabilities. Excluding lease liabilities, the group was in a net cash position of \$37.3 million an improvement of \$424.0 million compared to the prior year. All borrowings were repaid in July 2020. The \$100 million ANZ bilateral facility was cancelled in August 2020. The Group has sufficient facilities in place to fund its strategy and remains comfortably within banking covenants.

The impact of the implementation of AASB 16 Leases this financial year has reduced net assets by \$40.1 million. Net assets for the Group increased by \$175.3 million primarily due to the proceeds of the institutional component of the equity raising.

Capital expenditure reduced from \$90.5 million in FY19 to \$67.9 million as liquidity measures were implemented during the COVID-19 trading period. Expenditure included \$28.0 million in new and refurbished store fitouts and \$39.8 million in building omni-retail capabilities, data and analytics, and other information technology projects.

The Board has declared a fully franked final dividend of 19.5 cents per share, representing a payout ratio of 55 per cent of second half underlying NPAT, being the bottom end of the Group's target payout range of 55 per cent to 65 per cent. In reaching this decision, the Board considered a number of factors including its previous decision to cancel the interim dividend, the performance of the business in the second half and the net cash position on the balance sheet following the recent equity raising.

2020/21 TRADING UPDATE

The Group trading update for the first seven weeks of FY21 is set out below.

Like-for-like sales growth first seven weeks

- Supercheap Auto 23 per cent
- rebel 30 per cent
- BCF 72 per cent
- Macpac 16 per cent
- **Group Total 32 per cent**

The Group has delivered extremely robust like-for-like sales growth in the first seven weeks of FY21, driven by increased uptake of domestic tourism and travel, exercise and fitness and outdoor leisure activities, with favourable gross margin compared to pcp.

Like-for-like sales include the impact of the government-mandated closure of 94 stores in Melbourne (35 Supercheap Auto; 32 rebel; 14 Macpac; 13 BCF) from week six and 21 stores in Auckland (12 Supercheap Auto; 9 Macpac) from week seven.

Current consumer spending patterns remain volatile and the economic outlook is uncertain.

The Group expects FY21 capital expenditure to be approximately \$90 million.

RESULTS BRIEFING - TELECONFERENCE DETAILS

Super Retail Group will host an FY20 results briefing teleconference for analysts and investors at 10.30am (Sydney time) today.

If you wish to access the teleconference please register at least 10 to 15 minutes prior to the conference call via the following link: <https://s1.c-conf.com/diamondpass/10008817-invite.html>

Following registration, participants will receive the teleconference details and a unique access passcode.

Authorised for release by the Super Retail Group Board.

Investor enquiries:

Robert Wruck, Head of Investor Relations

Ph: 0414 521 124

E: robert.wruck@superretailgroup.com

Media enquiries:

Kate Carini

Ph: 07 3482 7404

E: communications@superretailgroup.com