Super Retail Group

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ASX/Media Announcement

Super Retail Group reports another year of record sales

Super Retail Group announces net profit after tax attributable to owners for the 53-week period ended 2 July 2022 of $241.2 million

Highlights:

- Total Group sales up 2.8 per cent to $3.55 billion[1] (or up 1.0 per cent adjusted for the 53rd week in FY22) driven by a strong second half performance
- Group like-for-like sales down 0.6 per cent.[2] Second half like-for-like sales up 5.0 per cent[3]
- Online sales up 44 per cent to $601 million
- Group gross margin 46.8 per cent
- Normalised profit before tax (PBT) down 20 per cent to $349.6 million
- Normalised net profit after tax (NPAT) down 20 per cent to $244.1 million
- Basic earnings per share (EPS) of 106.8 cents and normalised EPS of 108.1 cents
- Fully franked final dividend of 43.0 cents per share, bringing the full year dividend to 70.0 cents per share
- Active club members up 14 per cent to 9.2 million[4]

Group Managing Director and Chief Executive Officer Anthony Heraghty said:

> "I am pleased to announce that the Group has delivered a strong set of financial results with another year of record sales. The successful execution of our omni-retail strategy, the Group's enhanced digital capability, proactive supply chain management, and an outstanding contribution from our team members were central to this performance.

1. FY22 was a 53-week trading period compared to FY21, which was a 52-week trading period. Sales and earnings growth numbers in this announcement compare 53-weeks of trading with 52-weeks of trading unless otherwise indicated.
2. Like-for-like sales growth numbers in this announcement compare 52-weeks of trading with 52-weeks of trading.
3. Second half like-for-like sales growth numbers in this announcement compare 26-weeks of trading with 26-weeks of trading.
4. Active club members are club members who have shopped in the last 12 months.

"Record online sales and the Group's strategic decision to invest in inventory in response to a disrupted global supply chain underpinned our first half performance. Our solid inventory levels enabled us to capture consumer demand when retail spending rebounded in the second quarter following the end of COVID-19 lockdowns.

"The Group delivered a strong second half result, with like-for-like sales increasing by five per cent. This reflected a growing contribution from our successful new store formats, positive like-for-like sales across all four core brands and a record June winter sales result for Macpac. Pleasingly, the Group achieved gross margin of 46.8 per cent as targeted and effective promotions and pricing partially offset higher supply chain costs.

"The Group maintained its ongoing focus on closeness to customer adding more than one million customers to its loyalty programs, as the number of active club members reached 9.2 million. These customers represented 70 per cent of Group sales."

GROUP

The Group delivered a record sales result that was up 2.8 per cent on FY21 (or up 1.0 per cent adjusted for the 53rd week), with digital sales growing 44 per cent to a record $601 million.

COVID-19 lockdowns during the first half of FY22 impacted in-store revenues, however second half sales grew strongly as foot traffic recovered.

Segment normalised Profit Before Tax fell by $86.2 million to $349.6 million. The key drivers of this result were:

- an increase in costs resulting from global supply chain disruption and greater promotional activity, particularly in BCF. These factors resulted in a 110 bps decrease in gross profit trading margin to 46.8 per cent;
- increased investment in the Group's store development program that contributed to a strong sales uplift. This included opening 21 new stores and undertaking an extensive refurbishment program;
- investment in strategic programs include customer loyalty, digital experience, workforce planning, warehouse management, endless-aisle and gift card platforms. These programs are important growth initiatives intended to provide long-term growth capability to the Group;
- investment in building the Group's customer loyalty and personalisation capability, which increased Group Unallocated Costs by $7.2 million; and
- a write-down of the non-core Autoguru investment of $5.9 million (inclusive of loans).

SUPERCHEAP AUTO

Sales increased by 2.4 per cent to $1.34 billion (or 0.5 per cent adjusted for the 53rd week).

Like-for-like sales fell by 0.1 per cent for the year but rebounded strongly in the second half. First half like-for-like sales fell by 7.7 per cent as COVID-19 lockdowns impacted sales in the first quarter. However, second half like-for-like sales grew by 7.7 per cent, driven by strong performance in lubricants, auto maintenance and tools.

Online sales grew by 64 per cent to $175 million, representing 13 per cent of total sales. Click & Collect comprised 79 per cent of online sales.

Gross margin declined by 60 bps versus pcp as higher trading margins were offset by elevated supply chain costs and normalisation of promotions.

Segment normalised PBT of $176.1 million was 8.4 per cent lower than pcp. Second half segment normalised PBT of $100.2 million was 11.9 per cent higher than pcp.

Normalised PBT margin of 13.1 per cent was 160 bps lower than pcp, however second half PBT margin was in line with pcp.

SCA Club active membership increased by 36 per cent to 3.2 million, with club member sales representing 59 per cent of Supercheap Auto total sales. Average club member Net Promoter Score (NPS) was 65 per cent, up from 64 per cent in the pcp.

Supercheap Auto opened three new stores and closed one store during the period, resulting in 329 stores at period end.

REBEL

Sales increased by 1.3 per cent to $1.21 billion (a 0.6 per cent decline adjusted for the 53rd week).

The robust sales result was driven by an increased contribution from new rCX format stores and strong performance in key categories including basketball and licensed products.

Like-for-like sales fell by 2.8 per cent for the year but rebounded strongly in the second half.

First half like-for-like sales fell by 5.9 per cent due to lower footfall in CBD and large shopping malls from the pandemic and delayed shipments which impacted product availability. Second half like-for-like sales grew by 0.5 per cent. Sales momentum built during the half as foot traffic recovered and footwear and apparel stocks were replenished at the end of the fourth quarter.

Online sales grew by 39 per cent to $268 million, representing 22 per cent of sales. Click & Collect comprised 41 per cent of online sales.

Gross margin was 80 bps lower than pcp as higher trading margins were offset by supply chain costs, increased promotional activity and inventory supply challenges.

Segment normalised PBT of $141.0 million was 15.4 per cent lower than pcp. Second half segment normalised PBT of $72.7 million was 4.9 per cent higher than pcp.

Normalised PBT margin of 11.6 per cent was 230 bps lower than pcp, however second half PBT margin was only 10 bps lower than pcp.

Active club membership increased by two per cent to 3.3 million, with club member sales representing 69 per cent of rebel total sales. Average club member NPS increased to 62 per cent, up from 59 per cent in the pcp.

During the year, rebel opened three stores and closed one store, resulting in 155 stores at period end.

BCF

Total sales increased by 4.0 per cent to $829.7 million (or 2.7 per cent adjusted for the 53rd week) driven by like-for-like sales growth and contribution from new stores.

Like-for-like sales for the year grew by 1.1 per cent following a strong second half performance. First half like-for-like sales fell by 3.7 per cent cycling a record pcp. Second half like-for-like sales grew by 6.7 per cent driven by strong trading over the summer and Easter holiday periods, particularly in boating and camping.

Online sales grew by 36 per cent to $117 million, representing 14 per cent of sales. Click & Collect comprised 66 per cent of online sales.

Gross margin was 300 bps lower than pcp due to increased promotional activity, sales mix and higher supply chain costs.

Segment normalised PBT of $59.6 million was 38.2 per cent lower than pcp. Second half segment normalised PBT of $28.4 million was 14.2 per cent below pcp.

Normalised PBT margin of 7.2 per cent reflects the return to a more typical competitive environment.

Active club membership increased by seven per cent to 2.1 million, with club member sales representing 87 per cent of BCF total sales. Average club member NPS was 66 per cent, up from 63 per cent in the pcp.

BCF opened five stores, resulting in 147 stores at period end.

MACPAC

Sales increased by 15.3 per cent to $176.8 million (or 11.4 per cent adjusted for the 53rd week) driven by record June winter sales.

Like-for-like sales grew by 4.4 per cent overall and by 8.5 per cent in the second half.

In Australia, like-for like sales increased by 12.4 per cent reflecting growth in rainwear and insulation apparel sales due to cold and wet weather. In New Zealand, like-for-like sales fell 6.5 per cent due to the impact of COVID-19 and reduced tourism and travel.

Sales of Macpac product in rebel and BCF stores was expanded to over 200 outlets, and as a result, wholesale sales in this channel grew by 95 per cent.

Online sales grew by 35 per cent to $41 million, representing 23 per cent of sales. Click & Collect comprised 17 per cent of online sales.

Gross margin was slightly lower than pcp due to higher freight costs as a result of a significant uplift in home delivery sales in the first half. Second half gross margin was higher than pcp.

Adjusting for the 53rd week in FY22, which occurred in the peak winter promotion period:

- Segment normalised PBT was only 1.9 per cent below pcp despite the $1.5m PBT loss incurred in the COVID-19 impacted first half; and
- Normalised PBT margin was 130 bps lower than pcp, however second half PBT margin was 250 bps higher than pcp.

Active club membership increased by 22 per cent to 0.6 million, with club members representing 72 per cent of Macpac total sales. Average club member NPS was 69 per cent, up from 68 per cent in the pcp.

Macpac opened ten stores and closed one store, resulting in 85 stores at period end.

ONLINE

Group online sales increased by 44 per cent to $601 million, representing 17 per cent of Group sales.

Click & Collect sales grew by 73 per cent to $332 million, accounting for 55 per cent of Group online sales.

GROUP AND UNALLOCATED

Group unallocated costs of $38.5 million were $7.8 million higher than pcp, reflecting higher corporate costs, the write down of the Group's investment in Autoguru and costs relating to the Group's investment in building personalisation and loyalty.

Corporate costs were $0.1 million higher than pcp reflecting higher insurance costs.

The Group also wrote down the value of its investment in the Autoguru business by $5.9 million (inclusive of loans).

Group unallocated costs also included loyalty and personalisation costs of $7.2 million. This reflects operating expenses relating to previously flagged investment in capability to launch new loyalty programs and make personalised offers to individual customers utilising first party data. The Group will continue to include these establishment costs in the unallocated cost line to provide transparency on the underlying performance of each of the brands prior to the impact of this investment.

CASH FLOW AND NET DEBT

FY22 was a 53-week year and included an additional payment cycle for landlords, certain trade partners and team payroll. The net impact of the 53rd week on Group cashflow was an outflow of $49.4 million.

Adjusting for the impact of the 53rd week, operating cash flow was $389.8 million.

Total capital expenditure in the period included $65.9 million spent on omni-retail, loyalty and personalisation, and IT projects. This reflected increased investment in loyalty and personalisation, and other strategic portfolio projects including workforce planning, warehouse management systems, endless aisle and gift card platform.

Capital expenditure of $58.8 million was spent on new stores and refurbishments.
This was a result of increased investment in our store development program including 21 new store openings and an extensive store refurbishment program.

Adjusting for the impact of the 53rd week, the Group had a net cash position of approximately $63 million.

FY23 TRADING UPDATE

Group like-for-like sales growth as at week 6 is as follows:

	Like-for-like sales growth (FY23 vs FY22)
Supercheap Auto	15%
Rebel	13%
BCF	17%
Macpac	42%
Group	17%

The Group has made a positive start to FY23 with all four core brands delivering strong like-for-like sales growth. Given the Group is cycling lockdowns in the pcp, investors are cautioned against extrapolating this growth.

Like-for-like sales growth against the comparable (pre-pandemic) period in calendar 2019 is 29 per cent.

Low unemployment and high levels of household savings are currently supporting strong consumer demand and foot traffic in shopping centres continues to build.

Shipping availability and port handling times are improving although the risk of supply chain disruption remains. Transport and logistics costs have started to moderate but remain above historical (pre-pandemic) levels.

Business improvements and unwinding of pandemic-related costs are expected to partly offset the impact of higher rent and wages on cost of doing business.

While current trading remains strong, the Group expects rising interest rates and higher costs of living will start to impact consumer spending in the second half and that elevated levels of demand which arose during the pandemic will begin to subside. To prepare for more challenging macro-economic conditions, the Group is taking cost control actions focused on supply chain normalisation, store cost normalisation, maximising COGS efficiency and implementing a variable cost plan to align costs with revenue.

The Group is targeting capex in FY23 of $125 million to fund its store development program and investment in omni and digital capability, including personalisation and loyalty.

Group and unallocated costs in FY23 are expected to include corporate costs of $25 million and $19 million of expensed costs relating to investment to build personalisation and loyalty capability.

Mr Heraghty said:

"The Group has made a positive start to FY23 with all four core brands delivering strong like-for-like sales growth, noting however that the Group is cycling lockdowns in the prior comparative period.

"Since 2019, the Group has made excellent progress in increasing the scale and profitability of its digital offering as we continue our transformation from a traditional bricks and mortar retailer to an omni-retail business. Despite the challenges of the pandemic, the Group has invested for future growth – including in our digital capability, store network, warehouse management systems, supply chain and workplace management systems.

"I am confident that the business improvements delivered by this investment will strengthen our competitive position and generate long-term value for our shareholders.

"Looking forward, over the next two years the Group will make a significant investment to leverage our first-party data by launching new loyalty programs, developing a customer data platform, and building our customer analytics. This investment will enable the Group to make increasingly personalised offers to our customers utilising analytically driven data and insights. Given our large active club member base of over nine million customers, this represents a significant strategic opportunity.

"We have been buoyed by the performance of our new store formats, including next generation Supercheap Auto stores, rebel rCX and BCF small format regional stores. In FY23 we are proposing to open up to 30 new stores across our four core brands, including our BCF superstore in Townsville. We also expect to upgrade an additional five rebel stores to the new rCX format.

"The Group's conservative balance sheet, our customer value proposition, the strength of our brands and the resilience of our key auto and sports businesses positions us well to manage inflationary pressures and a more challenging retail environment."

RESULTS BRIEFING - TELECONFERENCE DETAILS

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

To access the teleconference please pre-register at least 15 minutes prior to the call via the following link: **https://s1.c-conf.com/diamondpass/10023894-p0i43n.html**

Upon registering, you will be provided with dial-in numbers and a passcode.

Participants are encouraged to register in advance of the time for the teleconference call.

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IMPORTANT INFORMATION

This announcement contains general information about the Group and its activities, current as at the date of the announcement. It is information given in summary form and does not purport to be complete. It may contain forward-looking statements which are subject to uncertainty, risks, and assumptions, many of which are outside the control of the Group. The announcement should not be relied upon as advice or considered as a recommendation to investors or potential investors. Readers should consult their own legal, tax, business and/or financial advisors in connection with any investment decision.

Authorised for release by the Board of Super Retail Group Limited.