

18 August 2011

## **ASX/Media Announcement**

### **Super Retail Group announces a 46% increase in full year net profit after tax**

***Super Retail Group (ASX:SUL) today announced a 46.1% increase in net profit after tax to \$55.6 million for the 52 weeks to 2 July 2011.***

Highlights for the year included:

- 16.4% increase in Group Sales to \$1092 million
- 37.3% increase in Group EBIT to \$87.5 million
- 26.8% increase in earnings per share
- \$48.3 million invested in new and refurbished stores
- \$5.3 million reduction in net debt
- Post tax return on capital of 17.5%
- Supercheap Auto recognised as the Oracle Retail World Australian Retailer of the Year

The Board has declared a fully franked final dividend of 17.5 cents per share resulting in the year's fully franked dividend totalling 29 cents per share, an increase of 35% (7.5 cents per share) over the prior year. The final dividend will be paid on 26 September 2011 with a record date of 29 August 2011.

The 2010/11 financial year was a 52 week period compared to the 53 week period in the previous year, with the extra week contributing an additional \$18 million in sales and \$800,000 in profit after tax to the prior year's results. The 2010/11 results included a full year contribution from the Ray's Outdoors business, which was acquired on 31 May 2010.

Super Retail Group's Managing Director, Mr Peter Birtles, said the very pleasing increase in both sales and profit results reflected the strength of the Group's resilient business model and were delivered despite the widespread slowing in retail spending growth.

"New stores, solid like for like sales growth and a strong improvement in gross margins are the major drivers of these results. They have been delivered through a continued focus on new product introduction, sourcing and supply chain initiatives and the further development of business capabilities," said Mr Birtles.



[www.supercheapauto.com.au](http://www.supercheapauto.com.au)



[www.bcf.com.au](http://www.bcf.com.au)



[www.goldcross.com.au](http://www.goldcross.com.au)



[www.raysoutdoors.com.au](http://www.raysoutdoors.com.au)



[www.fco.co.nz](http://www.fco.co.nz)

“These results have been achieved through a combination of the continued strong performance of the Supercheap Auto and BCF Boating Camping Fishing businesses and the full year contribution of Ray’s Outdoors.”

### **Auto and Cycle Retailing**

Divisional sales at \$708.2 million were 3.4% higher than the prior period or 6% after adjusting for the extra week sales in the prior period. EBIT at \$63.6 million was 32% higher than the prior comparative period.

Supercheap Auto continued to perform extremely well with strong like for like sales growth of 4.8% maintaining the rate of growth delivered over the last four years. Like for like growth in both customer numbers and average number of items per transaction were the major drivers of sales growth.

The business continued to focus on new product introduction, with 20% of the product range renewed during the year, and in delivering further improvement in in-store stock presence and merchandising standards. The business continued its store refurbishment program with a further 34 stores refurbished or relocated during the year including three stores reconfigured as Superstores.

Gross margin improved by a further 1.7% points over the prior year and has now increased by 3.6% points over the last three years. There are many factors contributing to this exceptional result including direct sourcing of imported products, development of own brand ranges, investment in product quality reducing returns, supply chain efficiencies, improvement in trading terms and the stronger Australian dollar.

Nine new stores were opened and two stores were closed during the year which resulted in 274 stores across Australia and New Zealand at the end of June 2011.

Performance at Goldcross Cycles, which represents 2% of the Group’s sales, continued to fall below expectations. Like for like sales declined by 14% during the year which was in line with trends across the wider bicycle market. Industry statistics indicate that approximately 16% of purchases now made by Australian consumers in the bicycle market are from international websites.

The shortfall in like for like sales was offset by the contribution from two new stores opened during the year, control of operating costs and improvement in gross margin. Overall gross margin increased by 3.0% points through the successful launch of own brand bicycles and various supply chain initiatives, despite the impact of market wide discounting and stock clearance actions.

The Board completed a review of the performance of the business and determined that the most viable medium term value creating strategy will be to maintain the focus on performance improvement across the existing network of stores. This will be achieved through relocating underperforming stores to smaller lower cost locations, reducing stock holdings, developing a range of own brand parts and accessories, driving supply chain efficiencies and adapting business processes to facilitate a greater focus on customer service.

## Leisure Retailing

The division performed well with sales at \$384.1 million and EBIT at \$32.0 million, both 50% higher than the prior comparative period.

The \$2 million synergy benefits from the acquisition of Ray's Outdoors, which were forecast to be delivered in the 2011/12 year, were fully realised in 2010/11.

Overall gross margins across the division increased by 2.0% points through the contribution of the higher margin Ray's Outdoors business and the work undertaken in BCF Boating Camping Fishing to increase the volume of directly sourced product, to improve supply chain processes and to secure improved trading terms.

Overall operating costs to sales increased by 2.1% of sales which reflected the impact of the higher cost structures in the Ray's Outdoors business to support sales of footwear, BBQs and outdoor furniture and the increase in the number of smaller format BCF stores.

The BCF Boating Camping Fishing business continued to deliver strong sales growth with nine new stores opened during the year and a 4.6% like for like sales growth in existing stores driven by an increase in both customer numbers and an average item value.

The sales contribution from the Ray's Outdoors business was below expectations. For much of the year, the business suffered from high levels of out of stocks across key merchandise ranges through a loss of focus in the lead up to the acquisition in May of last year and during the integration period post acquisition.

Gross margin in the Ray's Outdoors business was ahead of expectations at the time of the acquisition which partly offset the sales shortfall. Good progress was also made in developing the network of Ray's Outdoors stores across Australia with 12 new stores opened during the year.

The management team have conducted an extensive review of product ranging and pricing policies to bring these into line with customer expectations. New product ranges are being introduced into the business and there is a strong focus on improving product quality. A new customer value proposition has been developed along with a new marketing campaign and this will be launched in the early part of the 2011/12 year.

At the end of June, the division had 78 BCF Boating Camping Fishing stores and 50 Ray's Outdoors stores trading across Australia.

During the year, the division developed a third business concept to trade under the name FCO Fishing Camping Outdoors. This new business, which takes elements from both the BCF Boating Camping Fishing and the Ray's Outdoors businesses, has been designed specifically for the New Zealand market.

Plans are in progress to launch the business in November 2011 with ten stores across the North Island and a further two stores in the post Christmas period. This will require a net capital investment of circa \$12 million. The Board will monitor performance over the initial 12 month period before committing further capital.

## Group Costs

Group Costs included \$1.9 million of integration costs associated with the Ray's Outdoors business, \$0.9 million of non recurring corporate development costs, \$0.7 million of multi channel development program costs, \$2.1 million of costs associated with unutilised distribution centre, support office and store space (mainly arising from the integration of Ray's Outdoors) and \$2.5 million public company costs.

## Group Logistics and Sourcing

The Ray's Outdoors business was integrated into the Group's supply chain operations within three months of acquisition.

In addition to the increase in units flowing through the distribution centres as a result of the growth of the Group's businesses, the BCF Boating Camping Fishing business was able to achieve gross profit improvements through directing more products through distribution centres rather than direct from trade partners to stores.

The value of product sourced by the Group Sourcing Team based in China increased by 150% to more than \$70 million. This growth has been a major factor underpinning the increase in gross margins across the Group's businesses over the last four years.

## Review of Financial Condition

Cash flow from operations was \$70.9 million which was \$18.3 million higher than the prior period reflecting continued strong control of working capital across the Supercheap Auto and BCF Boating Camping Fishing businesses. The Ray's Outdoors business introduced new product ranges which resulted in an increase in inventory per store.

Group capital expenditure was \$36.5 million which included \$12.9 million in new store fit-outs, \$10.9 million in store refurbishments, \$6.7 million in information technology projects and \$5.9 million in general capital projects.

The Group fully funded all growth investment and continued to reduce net debt which stood at \$73.5 million at the end of June. This represented a decrease of \$5.3 million compared to the prior comparative period. The Group operated comfortably within debt facility limits and with significant head room against all facility covenants throughout the year.

## Looking Forward

Mr Birtles said that the Group had a track record of delivering strong increases in revenue and profitability during periods of both high and low growth in retail spending.

"Although wider economic conditions mean that the short term outlook for retail spending remains uncertain, we are confident of our ability to grow our store network, deliver like for like sales growth and improve gross margins," he said.

"We also expect to continue to deliver working capital efficiencies across the Group.

“In the current year, we plan to open five new stores, convert two stores to Superstores and refurbish another 30 stores in our Supercheap Auto business and to open 20 to 25 stores across the Leisure Retailing division.

“We have made a solid start to the new financial year with like for like sales growth in the first six weeks of around 5% in the Supercheap Auto and BCF Boating Camping Fishing businesses. During the same period, like for like sales growth in the Ray’s Outdoors business was below last year reflecting the re-phasing of marketing and promotional activity to support the brand relaunch in late August and early September.

“We will continue to invest in developing our multi channel and customer relationship management capabilities. We plan to be able to offer our customers options to order on-line with either pick up in store or home delivery and we expect to launch a loyalty scheme in the Supercheap Auto business in the coming year.

We will also continue to explore opportunities to extend our retail operations into adjacent retail categories through either acquisition or organic development.”

## **ENDS**

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Peter Birtles and Gary Carroll will be presenting the results by teleconference on 19 August 2011 at 10am (AEST). To listen to this presentation go to the Boardroom Radio website ([brr.com.au](http://brr.com.au))

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