SuperGroup ■ Plc

Year-end trading update

6 May 2015

Euan Sutherland, Group Chief Executive Officer

Good morning everybody, and thank you for joining us on today's call where we will be covering the trading performance of the business in the 15 week period between 11 January and 25 April 2015. I'm joined today by Nick Wharton, our CFO, and I'll hand over to him in a moment to briefly run through the detail of the statement.

We are very pleased to report that the business has performed well in the period and throughout the second half of the year. We're on course to meet our financial expectations for the year, delivering an underlying profit before tax within our guidance range of £60-65m. And as an indication of our progress during the second half, profits at the mid-point of this range would constitute a +13% year-on-year increase in half two.

Reflecting on 2015 financial year as a whole, we closed the year in better shape with considerable progress having been made in half two across each of the core objectives we outlined at our Strategy presentation in March. We have continued to invest in the infrastructure of the business to provide a stronger operation, and to enable our plans for continued long-term growth. Our obsession with brand and product design also continues, fuelled by Julian and James' desire to keep innovating. This is already demonstrating its value through the Spring/Summer 2015 ranging, early signs of Autumn/Winter 2015 in Wholesale, and the collaboration with Idris Elba to design and produce a premium range of clothing launching this Autumn.

Our opportunity to grow the Group internationally via both the web an owned store space focused in Europe continues. Specifically during the year we added 82,000 square feet of own space through 28 store openings in 8 countries including 8 in Germany.

Finally, as we updated in March, we have secured control of the Superdry brand in the key North American market. It is very early days, but I'm pleased to say that after six weeks of ownership the integration process is going well. I was in the US all last week and this visit has only served to confirm my confidence in the long-term opportunity for our brand in that market. So all-in-all it's a year in which the team has much to be proud of.

I'll now hand over to Nick to cover the detail of today's announcement.

Nick Wharton, Interim Chief Financial Officer

Thank you Euan, and good morning everybody. So in terms of the announcement, turn our attention first to sales. Total Group sales in the 15 week period increased by 18%, driven primarily by strong growth in the Retail division where sales rose by almost 21%. Against somewhat softer comps and with some weather benefit late in the period, like-for-like sales increased by 11.6%. However with only limited benefit from clearance activity to clear over-stocks in the period overall we're very pleased with this performance.

Our like-for-like growth was complemented by growth from new space. Sales growth from new and a maturing space totalled 11.9% of sales in the full year, from an average footprint expansion of around 13%. As Euan mentioned, multi-channel offers a global growth opportunity for Superdry and was the strongest performing channel during the year, contributing strongly to like-for-like. Our income on sales grew by almost 40% year-on-year, our strongest performance in recent years.

Turning to Wholesale. Our Wholesale performance is best read over the half as the final period did benefit from the timing of deliveries delayed into the final 15 weeks. Growth in the second half of around 7% was an encouraging improvement on H1, despite the challenges presented by the administration of a key customer in the UK, as well as the strengthening of sterling against the euro, which has started to impact the translation of our overseas revenues.

However, even after allowing for these issues, we still see potential for stronger performance within the Wholesale business, and we have a plan in place to address these and drive better performance through in part improved buying processes that better integrate our retail and wholesale ranges.

Turning now to margin. Margin is impacted by a number of moving parts across the year and therefore merits a bit of explanation for each of the periods covered in today's statement. Firstly, for the year as a whole, gross margins are expected to have grown slightly year-on-year. The largest driver to this full year performance is again delivered in H1, resulting from the internalisation of agents' margin following the acquisition of a number of our European agents early in the second half of FY14.

Specifically to the second half, margins are anticipated to decrease slightly year-on-year. Importantly, this period didn't not benefit from agents' margin so the positive drivers were limited to the ongoing benefit from a sales mix towards higher margin channels and territories. However, across the half this margin tailwind was more than offset by two factors: firstly, unfavourable currency movements; and secondly, promotional activity introduced in the third quarter to address high levels of seasonal stock. If we then cover the final quarter, the final 15 weeks, it grew slightly year-on-year driven by the favourable channel mix, and we foresee this continuing into the new financial year.

Finally, to profitability where we are on course to meet our final expectations with a profit before tax range of £60-65m, which as Euan has highlighted previously, will represent a return to material profit growth in the second half.

That completes my overview so I'll hand back to Euan.

Euan Sutherland

Thank you, Nick. I think we'll go straight to questions to allow more time for that.

<u>Q&A session</u>

<u>Question 1</u>

David Jeary, Canaccord Genuity

Good morning gentlemen. A couple quickly from me if I may please. Firstly, on e-commerce sales, against the 14% growth in H1 a massive improvement in H2, and I wondered if you could give a bit more colour on the reasons behind that obviously important strategic objective?

Secondly, on the space, what's the pipeline looking for in FY16 relative to the small shortfalls for FY15 please?

Euan Sutherland

Thanks David. I guess I'll ask Nick to comment on e-commerce and I'll cover the space. I think as we've said in our March update, we were just realigning some of the space growth targets by country to be most efficient by concentrating the growth in individual territories. That's taken place towards the end of this year, which has meant that the new space is towards the bottom end of our guidance. If I look forward therefore into FY16 I see that all being made up again in 2016, so we have a strong pipeline of European space growth in 2016 already laid down. So safe to say the 100,000 square foot target is well within our sights for this year going forward.

Nick Wharton

In terms of e-commerce, David, as you know e-commerce is a very granular business that you move forward by moving some of the metrics by very small numbers based on incredibly high footfall. I refer back to the presentation at the Strategy Day where John talked through essentially the sort of localisation strategy of improving each of our local offerings at the margins, and we've done a lot of that in terms of local language and making sure that the checkout process and some of the technical changes we've made to each of our local websites in order to make them easy to shop, and that's benefited conversion which is then converted into higher sales.

The other thing to reference is we've got very positive traction and deeper penetration with some of our partner programmes in the second half, and they've been a good contribution to that sales growth. Encouragingly, we are finding that those aren't cannibalising our own local market offerings, so they're introducing a new customer to Superdry through those partner programmes.

<u>Question 2</u>

Richard Chamberlain, RBC

Morning guys. Well done on the quarter. Just a couple of questions from me please. I just wondered how much opex in Q4 was impacted by higher volume related costs, so higher handling costs, cost to serve etc? So that's the first question.

Then second, just following on from David's point about e-commerce, I just wondered if you can comment on e-commerce margins, whether they're materially different from the Group average? Thanks.

Nick Wharton

In terms of opex, largely our store costs are fixed at the margins, so there will be slightly more labour investment to cover the move into greater inventory through the model but at the margins. But our distribution model because of its nature is pretty variable, so there will be some opex driven by the higher volume through our retail channels. The other opex impact that we have is one of mix. So we've talked about the strength in our e-commerce performance in the second half of the year. Again, the marginal cost to serve on e-commerce is slightly higher than through the retail channels through both the marketing cost of acquisition, which we treat as variable, and also delivery charges to our customers throughout the globe. So that would introduce an opex premium to that as well.

In terms of the e-commerce margin we reference favourable channel and country mix in the statement. The country mix is a beneficial mix towards Continental Europe, which is slightly higher than average margins, and also the channel mixed with e-commerce, which at gross level is slightly better than the company average as well. So, yes, it's slightly higher than Group average but not materially so.

Question 3

John Stevenson, Peel Hunt

Just a couple of questions, starting with e-commerce again. Given the shift in performance and I guess the improvement in the partner programmes, how important is that as part of the mix?

And secondly, has there been any sort of shift of sales mix within the territories internationally?

Euan Sutherland

I don't think we've seen much movement in the structure of the channels or the mix in the second half. While we're seeing some of the partner programmes coming on, they're still a very small percentage of total e-commerce sales. I think we guided around the 7% mark at the March update that remains the case. And I think we will watch that very closely.

I think encouraging for us is we've seen all territories, both local and further afield, grow nicely in e-commerce. As Nick has said, that's the benefit of continual investment in the infrastructure behind our web operations, which we think continues to be pretty much at the forefront of technology moving forward. And that will continue as part of our investment plan that we've outlined. So I think we've seen a very balanced growth across all of the web operations, if that helps.

John Stevenson

Great stuff. Could you maybe comment on the areas of spring/summer that has shown the most interest, the main areas that have been picked up that have been previously weak?

Euan Sutherland

Yes. I think again we've seen a fairly balanced growth across men's and women's and the rest of the inventory. We've seen stronger growth in the new colours we've put in for spring/summer, from also the all-over print has gone incredibly well, both in men's and women's and accessories. So those have gone straight into the top ten. So new innovations for us, and a good point of reference for Jules and James spending more time back in product. So I think we've seen some strong growth in that, and that has been very consistent, as we've said, across all territories of the world.

In reference to that, I was in the US last week and their Wholesale selection has not been optimum and they don't have that product. So hence why it won't take a rocket scientist to understand that we're fast-tracking that product into the US right now. So yes I think we've seen that.

If you look at womenswear we've seen a good growth there, albeit of some lower comps last year. But I think the new womenswear design team are starting to make their presence felt. And as I've had a preview of the autumn/winter range which is about to land, I think you'll see a further step on as we go into autumn/winter. So we're generally pleased across the board at the level of product detail and innovation that's coming through.

<u>Question 4</u>

Michelle Wilson, Berenberg

Morning guys, and congratulations on the results this morning. Most of my questions have been answered, to be honest, but just a quick question on Wholesale; can you give a bit more detail on what's driven the improvement there? Is it working with additional partners? Are they just appreciating the range more in this quarter and going into the next season?

Euan Sutherland

Yes, I think it's a bit of the latter. So I think we're seeing the take-up of the newer innovation across all categories in Wholesale as well as Retail.

I think we're also seeing the beginnings of the Wholesale channels starting to flow product again. I don't think they took as swift an action to clear as we did in Q3, so I think we're seeing a little bit longer timeframe in them clearing their channels. My sense is that that's easing a bit.

And the third bit on that is we're just beginning to implement some of the new process improvements in how we approach Wholesale, so some of the things that we outlined in the Strategy Update. Very early days on that, but we're starting to work those channels with the key partners better.

There aren't really any other new partners in there yet, so it is just an easing up of the combination of those three factors.

Michelle Wilson

But is there anything that could impact that negatively going forward? Or is that the kind of run rate we can expect to see into the next year?

Euan Sutherland

I think if you look at it relatively we were disappointed with Wholesale in 2014, especially in the first couple of quarters. So I'd hope that our numbers would beat that as we go through the early part of this year. But that's a fairly soft comparative. It's a longer-term process to build the strength and process around Wholesale, but we feel that we can do that. So all those indicators mean that we want to have strong growth out of our Wholesale channels, it's a very profitable channel for us. So yes I think we're pleased with the exit rate and we would hope to maintain that pace.

Michelle Wilson

And just briefly on the Idris Elba range; can you give an indication of the size of that range, just to think about what kind of impact it could have?

Euan Sutherland

Not in a lot of detail yet. We have got the final selection of the range that's taking place in the next couple of weeks. The broad number of pieces is around about 200. We're targeting that coming in towards the end of the autumn/winter season, before Christmas but towards the end of the autumn/winter season. And it will flow in, probably not all 200 pieces, at the first launch. But it will flow into the right Wholesale channels and the right Retail channels, because this is a longer-term programme for us.

So don't expect it to all land on one day and then we'll see sales from that point. We are hoping to land it in a very thoughtful way for a long-term advantage across the premium of all of our ranges.

<u>Question 5</u>

Tushar Jain, Bank of America Merrill Lynch

Good morning. Congratulations on good results. Just clarification on cross margin: when you're thinking about the next year clearly US dollar strengthening would be a big headwind. I'm just wondering what's offsetting that; is it just a mix of products? And how big the cross margin movement positive would be for the next year?

Nick Wharton

We talked about this slightly on the Strategy Day in March. You've hit exactly on the moving pieces. Going forward we continue to have, we believe, a favourable channel mix; back to the previous question, that's largely around Continental Europe, it will focus on Germany, and also e-commerce as being slightly higher than average gross margins. Despite the fact that we are well hedged that provides a deferral mechanism and protection; but going into next year we'll start to see a currency headwind both on US dollar buying and also potentially euro denominated sales. But increasingly again the other factor on there will be our increased scale so the potential for some scale buying opportunities.

So I think we said going forward that in the absence of any certainty on currency in the long term we'd expect to see some margin accretion in our gross margin over the next couple of years, with uncertainty about currency probably more into FY17 than FY16.

Concluding comments: Euan Sutherland

Thank you everyone for joining the call. Just in summary, you've seen we've had a strong second half of the year, both from a trading perspective and a good progress in each of the four pillars of our strategy. A long way to go with that but we're never complacent and we enter the new year with confidence that the full year 2016 we'll see progress towards the goal of making Superdry a truly global and multi-channel lifestyle brand. Thank you being on the call and we'll update you next in the early days of July. Thank you.