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ASX / Media Announcement

Super Retail Group provides update on Adventure Outdoors Retailing strategy and announces acquisition of Macpac

Super Retail Group Limited (ASX:SUL) today announced it will acquire Macpac to accelerate its strategy to build the leading adventure outdoors retail business across Australia and New Zealand.

- Super Retail Group ("the Group") has determined that the most value accretive strategy in the adventure outdoors sector is to acquire, integrate and grow
- The Group has agreed to acquire Macpac Holdings Pty Limited ("Macpac") for total consideration of NZ$144 million[1] (A$135 million)
- Macpac is a vertically integrated retailer with 54 stores across Australia and New Zealand offering primarily own branded apparel, equipment and accessories
- Rays and Macpac to be consolidated under the Macpac brand
- Synergies are expected through utilising the Group's capabilities in supply chain, procurement, marketing and retail operations to assist the Macpac business and Macpac's capabilities in design and apparel sourcing to assist BCF and Rebel
- Acquisition to be funded from existing debt facilities
- The acquisition is expected to generate mid single digit EPS accretion in FY19 (pre-synergies)[2]

Strategic Rationale

Peter Birtles, Group Managing Director and CEO, said that the acquisition of Macpac and the acceleration of the adventure outdoors retailing strategy is consistent with the Group's strategy of providing solutions and engaging experiences that inspire its customers to enjoy their leisure time.

[1] The purchase price is before acquisition costs and is subject to a post completion adjustment based on Macpac's working capital balance as at 31 March 2018.
[2] EPS accretion calculated on a pro-forma basis excluding transaction costs.

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"The Macpac business has performed extremely well over recent years, yet there remains a significant opportunity to grow the business in the near future through opening new stores and growing its digital and commercial channels. The heritage of the business and the quality of its products are assets that have not yet been fully leveraged, and we believe there is an opportunity to develop an experience for customers that brings these assets to the fore.

"The integration of the business with Rays provides an opportunity to position Macpac as the leading outdoor adventure specialist across Australia and New Zealand providing a much broader range of quality products, information and services than any other retail business. Super Retail Group will be able to leverage its capabilities in supply chain, marketing, procurement and retail operations to add value to Macpac, while Macpac's capabilities in design and apparel sourcing will add value to BCF and Rebel.

"The Macpac team are passionate, knowledgeable and proud of their heritage, their brand and their products. Importantly, they have a very similar culture to Super Retail Group. Alex Brandon and the wider team have built a successful business in a short period of time and have achieved strong growth momentum. We look forward to welcoming them as fellow team members."

Background

The Australian adventure outdoors retail market is estimated to be circa A$2.2 billion, serviced by apparel specialists, big box generalists and independents. Market research and the trial of the Rays business has confirmed the opportunity for a big box specialist retail business.

In May 2016, the Group commenced the testing of a big box adventure outdoors retail strategy with the launch of the Rays business that offers a wide range of apparel, footwear, equipment and accessories.

The primary learnings from the trial are that:
- no existing retail business is fully meeting customer expectations
- the format resonates strongly with customers in urban areas
- major international brand trade partners are supportive of the concept
- own brand apparel range requires greater scale and design capability
- the digital channel is increasingly important

The Group has determined that the most value creating option for participation in the adventure outdoor category is to acquire, consolidate and grow. Over the last five months, the Group has been assessing the opportunity to acquire the Macpac business, and overnight entered into an agreement to acquire the business.

Acquisition of Macpac

Super Retail Group has entered into an agreement with the owners of Macpac (of which the major shareholder is CHAMP Ventures) to acquire 100 per cent of the business for a total cash consideration of NZ$144 million[3] (A$135 million).

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The acquisition will be fully funded from within the Group's existing debt facilities, although the Group has secured agreement from its banking partners to increase its debt facilities by A$150 million to ensure it retains sufficient capacity to execute its broader omni-retailing strategy.

The acquisition is expected to complete on an effective date of 31 March 2018 and generate mid single digit EPS accretion in FY19 (pre-synergies)[3]. The Group expects to incur transaction costs of circa A$4 million to complete the acquisition.

Information on Macpac

Macpac was founded in 1973 selling hiking packs in Christchurch. It commenced retail operations in 2008. The company today operates as a vertically integrated retailer with 54 stores across Australia and New Zealand offering primarily own branded apparel, equipment and accessories.

Macpac is expected to generate sales of circa NZ$95 million and pro-forma EBITDA[4] of circa NZ$16 million in the year to 31 March 2018. Total sales growth and like for like sales growth in the nine months to 31 December 2017 were 20.9 per cent and 7.4 per cent respectively.

Integration

The Group intends to consolidate the Rays and Macpac businesses under the Macpac brand.

The combined business will include:

- Small format stores focusing on apparel with limited footwear, equipment and accessories. It is intended that goods sold will predominantly be Macpac branded
- Large format stores retailing an extensive range of apparel, footwear, equipment and accessories under the Macpac brand and major global brands providing a complete solution for the adventure outdoors customer
- Digital channel offering the complete range, extensive information and access to services
- Commercial channel

Macpac's capable and experienced management team, under Managing Director Alex Brandon, will lead the combined business. Alex will report to Anthony Heraghty, Managing Director of Super Retail Group's Leisure Retailing Division.

Synergies are expected through utilising the Group's capabilities in supply chain, procurement, marketing and retail operations to support the Macpac business and Macpac's capabilities in design and apparel sourcing to assist the BCF and Rebel businesses.

[3] EPS accretion calculated on a pro-forma basis excluding transaction costs.

[4] Includes Super Retail Group normalisations and pro forma cost adjustments.

The Group expects that the costs associated with the integration of the Macpac and Rays businesses will amount to circa A$13 million (of which circa A$ 6 million will be non cash) over the coming two years.

Advisers

The Group's financial adviser is Greenhill & Co. and its legal advisers are King & Wood Mallesons and Bell Gully.

ENDS

Further Information:
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Peter Birtles and Anthony Heraghty will present an overview of this announcement during the Group's first half results teleconference today. A recording of this presentation will be available from the Super Retail Group corporate website: http://www.superretailgroup.com.au/investors-and-media/video-and-audio/

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