Briscoe Group Posts Record Half Year Sales

Briscoe Group Limited (NZX/ASX code: BGP)

Highlights for the 26-week period – 29 January 2024 to 28 July 2024:

- Record sales of $372.08 million, +0.77%
- Underlying trading profit(1) of $40.58 million, 95% of last year's half year NPAT
- Online sales as mix of total Group sales 18.77%, (LY 18.33%)
- Total costs less than 1% increase on last year
- Total Inventory $13.89 million (-11.55%) below last year
- $35.00 million capital investment made during the period
- Interim dividend of 12.50 cps, maintained from previous year

The directors of Briscoe Group Limited (NZX/ASX code: BGP) announce a net profit after tax (NPAT) of $33.21 million for the half-year ended 28 July 2024. The result includes a tax adjustment of $7.37 million that the Group is required to book under New Zealand Equivalent to International Accounting Standard 12, as a result of recent tax changes announced by the government. This deferred tax liability adjustment is a one-off, non-cash accounting entry which has no impact on Briscoe Group's underlying profitability or dividend policy. Excluding this adjustment NPAT for the first half period was $40.58 million, 95% of last year's first half reported profit. The half-year results are unaudited.

Dame Rosanne Meo, Briscoe Group Chair said, "This half-year result represents, again, an outstanding performance in a market which continues to be very challenging. To post record sales for the half and an underlying trading profit(1) close to last year is very impressive."

The directors have resolved to pay an interim dividend of 12.50 cents per share (cps), unchanged from last year's interim dividend. Books will close to determine entitlements at 5pm on 25 September 2024 and payment will be made on 9 October 2024. The company's dividend policy is to pay out at least 60% of NPAT when calculated on a full year basis.

Rod Duke, Group Managing Director, said, "To produce an underlying trading NPAT of $40.58 million in this economic environment is very pleasing. The team have done a great job to produce positive sales growth, manage an inevitable margin decline, control the Group's overall cost base and optimise profitability."

The earnings were generated on sales revenue of $372.08 million, an increase of 0.77% on the same period last year. Rod Duke said, "Whilst only a modest increase, to deliver

(1) Underlying trading profit is equal to net profit after tax, excluding the impact of the one-off deferred tax expense.

positive sales across both the homeware and sporting goods segments is a significant achievement."

Gross profit margin percentage declined 76 basis points for the period from 43.73% to 42.97%. Rod Duke said, "Like all retailers we continue to face margin pressure as the impacts of the ongoing economic downturn are felt. Optimising gross profit while maximising sales is a constant focus for the team and they have done a terrific job this half in enhancing the promotional events for seasonal products, particularly for sporting goods, to increase sell-through and protect margins.

"In this environment controlling costs is crucial in protecting the bottom line. For this first half total store and overhead costs will close less than 1% higher than last year, a fantastic achievement in a market strained by increased cost pressures.

"We were pleased earlier this year to be able to deliver a 6% wage rate increase for our in-store hourly-paid team. The ongoing dedication and effort demonstrated by the entire team is incredible and greatly appreciated."

The Group's half year result will be negatively impacted as a result of KMD Brands Limited decision to not pay an interim dividend for this year. Last year the Group received $1.44 million (pre-tax) from its investment in KMD Brands.

Interest income booked by the Group increased by $1.1 million, predominantly as a result of higher cash balances.

Homeware sales for this first half increased in relation to last year by 0.28% from $229.39 million to $230.03 million and sporting goods sales by 1.58% from $139.85 million to $142.05 million.

The Group's online business continues to perform well and represented 18.77% of Group sales as at 28 July 2024. Rod Duke said, "We continue to improve both the front and back-end platforms with a number of new initiatives including; continued growth of our Direct-to-Customer product range, improved delivery choices, introduction of Apple Pay and increased gift card options."

Inventory levels as at 28 July 2024 were $106.32 million, down from $120.21 million at the same time last year. Rod Duke said, "With pressure on sales likely to continue we have focused strongly on inventory levels during the period. Particular focus has been placed on seasonal inventory levels across both Briscoes Homeware and Rebel Sport. We continue to work closely with our supply partners in relation to optimising the Group's inventory position."

The Group's balance sheet remains strong with cash balances of $131.77 million at the close of the period, compared to $126.90 million held at the same time last year. Approximately $23 million of creditor payments included in the trade payables balance were subsequently paid by 31 July 2024.

During the period $35.00 million of capital investment was made by the Group, $19.93 million of which is in relation to the new distribution centre project, being a combination of the implementation of a new Warehouse Management System (WMS) and deposits in relation to the agreements for the purchase of land and also building construction. A further $10.88 million of the capital investment relates to the rollout of the Group's electronic shelf labelling project across the store network. As at the end of July the rollout was 80% complete and is now fully implemented. The remaining $4.19 million of capital expenditure relates to the refurbishments of stores, expenditure in relation to Group owned property and enhancements to system software and hardware across the store network, support office and the online platform.

Despite the difficult trading conditions, the Group progressed a number of store development projects during this first half. Rod Duke said, "We completed full refurbishment projects at both Rebel Sport and Briscoes Homeware stores in Invercargill. Both these projects have delivered a dramatic difference to the in-store look and feel, reflecting the modern and energetic transformation achieved in other recent store refurbishments.

"We are especially excited about the work commenced in relation to the New Rebel Sport concept store. We have partnered with The General Store to design a flagship store which will elevate, refresh and vitalise our customer experience and store design to consolidate the Rebel Sport brand in New Zealand. We're thrilled with the work so far and the potential to be unlocked for the next generation of Rebel Sport stores.

"This half also saw the commencement of our largest strategic initiative to date – a North Island warehousing and distribution project that will step-change our capability in these aspects of the business, enhance our inventory management across the network, help to optimise the existing store footprint and deliver significant performance and efficiency gains.

"In July we completed the implementation of a new Warehouse Management System (Manhattan) at our existing distribution centre. This will enable our team to upskill before transitioning to the new facility when it becomes operational in around two years. The new centre will be a state-of-the-art facility on a scale to handle significantly increased volumes in comparison to current capability. It will also enhance the way in which we buy and distribute sporting goods.

"Contracts for the purchase of land and the construction of the new distribution centre at Drury, South DC project Auckland were signed in July. We have selected our automation partner to help drive the significant improvement in warehousing capability we are seeking from the project. We expect the new centre to require expenditure of at least $100 million across the next three years and continued progress on the warehousing and distribution project is a key priority for the current year.

“We remain cautious as to the retail environment and are under no illusions as to how the continuation of the current economic conditions could impact business performance for the remainder of the year. We are hopeful that the recent announcement of a lower OCR will mark the beginning of improved consumer confidence and improved retail spend.

“While we will not be able to replicate last year’s full year NPAT of $84.2 million, I am confident about the Group’s ability to deliver a strong result in what is unquestionably the most challenging retail environment we have seen for some considerable time.”

The Group’s next planned market release will be shortly after its 3rd quarter which closes on 27 October 2024.

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