Briscoe Group Half Year to 31 July 2022

Briscoe Group Limited (NZX/ASX code: BGP)

Highlights for the 26-week period – 31 January 2022 to 31 July 2022:

- Total sales $367.95 million, +2.66%
- Online sales as mix of total Group sales, 19.36%
- Online sales growth +22.93%
- Gross profit % 45.64% vs 46.50% last year
- Net profit after tax (NPAT) $45.62 million, -3.88%
- Interim Dividend 12.00 cps increased from 11.50 cps last year

The directors of Briscoe Group Limited (NZX/ASX code: BGP) announce a net profit after tax (NPAT) of $45.62 million for the half-year ended 31 July 2022 compared to $47.46 million achieved for last year's first half. The half-year results are unaudited.

Dame Rosanne Meo, Briscoe Group Chair said, "This half-year result represents an outstanding performance considering the significant headwinds faced by the retail sector. The agility and resolve shown by the leadership team in the face of these challenges has been impressive not only with the result that has been produced but also in relation to the support and care provided across the entire Briscoe Group team."

The directors have resolved to pay an interim dividend of 12.00 cents per share (cps). This compares to last year's interim dividend of 11.50 cps. Books will close to determine entitlements at 5pm on 21 September 2022 and payment will be made on 12 October 2022. 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 NPAT only slightly below the record first half profit reported last year is very pleasing considering the impact on shopping centre foot traffic early in the half from the Omicron outbreak and then the more recent decline in economic sentiment and a second Omicron wave.

"In addition, to be less than 1 percentage point under last year's half year gross profit margin percentage is an excellent result, however there is still more to do as the pressure on margin continues to intensify.

"We have previously flagged that the way profit falls this year between the first and second halves may be quite different to last year given the significant impacts and timings associated with supply chain disruptions, team availability and the significant number of trading days lost through store closures between August and November 2021."

The earnings were generated on sales revenue of $367.95 million, an increase of 2.66% on the same period last year. Rod Duke said, "To deliver positive sales in this current environment and against such a strong prior year comparative is a great achievement. It's also worth noting that this first half represents an increase of 21.44% over the most recent comparable period not impacted by Covid, Feb 2019 - July 2019."

Gross margin dollars increased slightly for the period from $166.66 million to $167.94 million, with gross margin percentage declining from 46.50% to 45.64%. Rod Duke said, "Like all retailers we are facing margin pressure from a number of factors including ongoing supply chain disruption and cost increases, a weaker New Zealand dollar and declining consumer confidence on the back of significant cost of living increases. There has been a considerable amount of energy dedicated to ensuring that a large portion of the significant gross profit margin gain (633 basis points) made by the Group across the last 2 full-year financial periods, is protected. This has involved initiatives in conjunction with KPMG in relation to our inventory ordering processes - optimising how, when, and what we purchase, as well as improving other inventory measures such as in-store availability, slow moving items and stock obsolescence. This work is ongoing and complements other in-house projects driving increased sales and margin, such as drop-ship (delivery direct from supplier) and customer segmentation.

"Every day the entire Briscoe Group team produces incredible results for us, and we were pleased to be able to increase the wage rates for our in-store hourly-paid team by 7.0% from April 2022. We are very mindful of the impact on all our team from the current public health situation as well as from declining economic factors in an employment market which is clearly under significant pressure. We continue to provide support in the form of paid leave for Covid-related absences, over-and-above existing entitlements."

The Group received a dividend of $1.44 million from its investment in KMD Brands Limited during the six months compared to $0.96 million for the same period last year.

Homeware sales for this first half increased in relation to last year by 2.74% from $222.63 million to $228.74 million and sporting goods sales by 2.51% from $135.79 million to $139.21 million.

The Group's online business continues to surpass expectations and performed exceedingly well during the period. Rod Duke said. "With the escalation of Omicron early in the period and its impact on foot traffic to bricks and mortar stores, our online platform offered a viable and seamless alternative for our customers. Online sales grew 22.93% over the first half of last year and represented 19.36% of total Group sales.

"We continue to invest in developing our online platform. During the period the team introduced a range of new front-end features including the ability to shop product collections, improved mobile navigation, enhanced product content as well as streamlining email communications with our database customers. We believe we have one of the best in-store online fulfilment systems in New Zealand and during the period we introduced fulfilment routing and reporting enhancements resulting in efficiency gains, lower freight costs and improved speed to customer."

Inventory levels as at 31 July 2022 were $113.00 million, up from $101.09 million at the same time last year. Rod Duke said, "While this includes inventory for the two additional stores opened by the Group in November 2021, the majority of the increase reflects opportunities identified as part of our inventory initiatives as well as our approach to secure inventory in advance of traditional timings given the continued possibility for delays from ongoing supply chain disruption. With inventories continuing to close higher than in recent years, we're in great shape for the second half."

The Group's balance sheet remains strong with cash balances of $97.58 million at the close of the period, compared to $93.93 million held at the same time last year.

Despite the difficult trading conditions and constraints in relation to team availability the Group progressed a significant number of store development projects during this first half. Five full-store refurbishments were completed during the period at; Briscoes Homeware Salisbury Street in Christchurch, Briscoes Homeware Albany, Rebel Sport Tauranga and at both Briscoes Homeware and Rebel Sport stores in Botany. These store upgrades result in a dramatic difference to the look and feel of the stores and include the latest ideas from the new-store design concepts. LED lighting, redesigned fixtures, personalised counters, click & collect storage zones and dramatic new in-store signage are examples of how these stores have been transformed. Rod Duke said, “We’re very excited about the impact achieved from the upgrades with at least another 5 planned for the second half of this year in addition to the 2 stores currently undergoing upgrades.

“Significant progress has also been made on a number of our strategic initiatives launched during 2020. Benefits from the supply chain projects are contributing to sales, gross profit and the Group’s bottom line.

“A number of other initiatives also continue to grow and benefit the Group’s profitability. Examples of these include; the ongoing introduction of new products online which are shipped direct from suppliers, continued development of our personalised database communication tool (Emarsys), the introduction of Tableau business intelligence dashboards throughout the Group’s network, the creation of a new on-shelf-availability tool for use across the store network, stock processing efficiencies in-store and at our distribution centre and e-receipts being trialed at a small group of stores.

“Whilst the Omicron outbreak appears to be stabilising within the community, the economic outlook for the remainder of the year remains very uncertain. However, we believe there is significant opportunity throughout the second half of the year for the Group, especially in the third quarter which last year was heavily impacted by enforced shutdowns from mid-August to early November.

“The August 2021 period was significantly impacted with all Group stores shut from 18 August to 7 September 2021 due to the declaration of National Alert levels 4 and 3. As a result, August sales this year have closed more than 60% up on the same month last year but as a more relevant comparison we also note that it represents an increase of 27.24% on the August 2019 period, that is, before any impact of Covid.

Given the solid first half performance together with the promising start we have made to the second half of this financial year, we remain optimistic of being able to finish the year ahead of the $87.91 million NPAT delivered last year.”

The Group’s next planned market release will be shortly after its 3rd quarter which closes on 30 October 2022.

Wednesday 14 September 2022
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