



ASX Announcement

24 August 2006

Super Cheap Auto Group (SUL) Announces FY06 Annual Results

Super Cheap Auto Group today released its annual results for the 2006 Financial Year. Highlights for the year included:

- Group EBIT at \$28.9 million increasing by an underlying 11% over the prior year comparative period
- Group sales at \$525.9 million, passing through the half billion dollar mark and recording an underlying increase of 14% on the prior year
- Supercheap Auto gaining market share and at the same time growing gross margins in difficult trading conditions
- The average inventory investment across Supercheap Auto stores reducing by over 10% whilst improving product availability on shelf
- The successful launch of BCF with sales and profit exceeding launch expectations

Group Earnings at \$16.5 million were 24.0% below last year on a reported basis but 8.7% higher than the prior comparative period after excluding non comparative items.

The Directors have declared a fully franked final dividend of 5.0 cents per share. The record date for dividend entitlement is 19 September 2006 with the dividend payable to shareholders on 11 October 2006. The total dividend for the year is 8.0 cents per share, an increase of 23.1% over the prior comparative period.

Commenting on the results, Peter Birtles, Managing Director, said, "These results highlight the strength of the business model that has been built over the last few years. In particular, we have begun to reap the benefits of our investment in developing our merchandising and supply chain management systems."

“In what have been generally acknowledged as particularly challenging trading conditions, we have been able to not only grow sales and profit in our primary business, Supercheap Auto, but also successfully launch a brand new retail concept, BCF.”

“Our management of working capital has allowed us to fully cover the \$37 million invested in opening 23 new Supercheap Auto stores and 13 new BCF stores through funds generated from operating cash flow.”

“We have established the framework for future growth in our existing formats and through developing new format opportunities.”

Supercheap Auto

Sales increased from \$465 million to \$482 million during the period. This represents underlying growth of 6% after adjusting for the extra week of trading included in the prior year results.

EBITDA at \$42.5 million and EBIT at \$32.4 million were respectively 10% and 7% higher than the prior comparative period on an underlying basis.

Like for like sales performance was stronger than that of the retail auto after-market in which there was a decline of over 2% in customer expenditure during the year. Supplier data has confirmed that Supercheap Auto has been successful in growing market share in a number of key categories such as lubricants, car care and interior accessories.

The commitment to a consistent and planned marketing and buying strategy has led to an improvement in gross margins and in the business achieving its targets for a 10% reduction in inventory investment per store whilst improving shelf availability in store. The improvement in gross margins was driven through securing better cost prices, improved trading terms, and reduced logistics costs and shrinkage.

23 new stores were opened during the period bringing the total number of Supercheap Auto stores to 234 of which 196 were in Australia and 38 in New Zealand.

The current Supercheap Auto format of a 700m² standalone store has a potential for around 270 stores across Australia and New Zealand. Work has commenced on alternative formats for the Supercheap Auto brand which, if successful, will provide the Group with a flexible footprint to suit local market and demographic conditions. This will open up opportunities for many more Supercheap Auto stores across both countries. These new format opportunities will be trialled in the first half of the new financial year.

The work to refresh the brand’s marketing strategy has recently been completed. The brand logo has been updated, the layout of catalogues and in-store signage redesigned, and a new set of television commercials launched.

The store at Chermside in Brisbane was recently refurbished as a Concept store to trial new merchandising displays, new store procedures and new products. The early

trials have proved very promising and the business will commence a programme of refurbishment of higher trading stores during the coming year, utilising the most successful attributes of the Chermside concept store.

Mr Birtles said “During the year, the business has strengthened its position as the leading retailer of automotive parts and accessories across Australia and New Zealand. We are confident that the initiatives being implemented across the business to refresh our customer offer will further consolidate this position over the coming year, and that we will continue to generate improvements in both gross and net margin performance.”

BCF – Boating Camping Fishing

BCF was launched to the general public on 15 October 2005, with eight stores trading under the BCF banner across South East Queensland - three refurbished CampMart stores and five new BCF stores.

Over the balance of the year, the remaining CampMart store was refurbished, three new stores were opened in Queensland and one new store opened in Northern New South Wales. Two further stores have been opened since the end of the financial year, one at Midland in Western Australia and one at West Gosford in New South Wales.

Full year sales were \$44 million and full year EBIT (pre set up costs) was \$1.4 million, both ahead of the launch targets of \$40 million and \$1.2 million respectively. Set up costs were \$4.8 million against a target of \$5.0 million.

This profit result was achieved despite the impact of un-forecasted non-cash provisions of \$0.7 million, arising from the impact of accounting for property lease costs in accordance with AIFRS.

Gross margins have been better than original expectations and gross inventory investment has been held to an average of \$1.3 million per store compared to the initial target of \$1.5 million per store. Further improvements in gross margins are anticipated as the business builds scale and develops own brand products and leverages the Group’s capabilities in sourcing product from Asia.

All components of the business have performed well with the fishing section being particularly strong. Inventory investment in the boating section has been rebalanced towards higher volume and higher margin product for smaller boats and away from hardware for larger boats and higher value marine electronics to better reflect trading patterns.

Mr. Birtles said “The whole BCF team deserve enormous credit for the work they have done in establishing a brand new retail concept that has beaten all of its launch targets. Our experience has reinforced the confidence that we have in this retail concept and we see an opportunity for the business to establish a footprint of around 60 stores across Australia and New Zealand within the next 4 years. We see the business breaking even in the next financial year, after accounting for set up costs, and making a strong contribution to Group earnings in 2007/08.”

Supply Chain Operations

The Group has continued to deliver improvements throughout the period in both the productivity and service provided by its supply chain operations. In addition to the reduction in inventory holdings and improvement in on shelf availability highlighted earlier in this report, logistics costs as a % of sales were lower than in the prior comparative period.

During the year, the opening of a third party distribution centre in Melbourne has reduced freight costs as stock for the stores in Victoria and South Australia is distributed from this facility rather than from the Brisbane distribution centre. In June, the logistics operation in New Zealand was moved to larger premises in Auckland. This new distribution centre will facilitate the direct importing of product into New Zealand from Asia rather than indirectly via the Brisbane distribution centre.

A number of operational improvements have been implemented at the Brisbane facility which has enhanced productivity and accuracy. More recently, additional material handling equipment has been installed which will generate further improvements in the coming year.

The Group is also working on a number of initiatives to improve supply chain and sourcing operations in China, including:

- Entering into a logistics partnership with Cargo Services Far East, a Hong Kong based business which is responsible for logistics and freight forwarding arrangements within China. As part of this new relationship, new systems have been implemented which track product movements from the manufacturer in China through to the Group's distribution centres in Australia and New Zealand.
- Renegotiating shipping arrangements and, as a consequence, reducing shipping costs.
- Establishing a direct sourcing operation based in Hangzhou, China. This new team will be in place in October and will have a focus on reducing sourcing costs and lead times, improving product packaging and quality and generating supply chain efficiencies.

Cash Flow and Net Debt

The Group renegotiated its funding facilities during the year, securing new arrangements which are a mixture of term debt and working capital facilities. These new facilities have been established at a lower cost and provide significant capacity to fund further growth initiatives over the coming years.

Net debt for the Group increased from \$75.2 million to \$80.9 million. Under AIFRS a further \$1.8 million of net debt relating to a team member share scheme special purpose vehicle has been consolidated into the Group's balance sheet.

Cash flow from operations was \$26.8 million. This positive result was achieved even though approximately \$27 million was invested in inventory for new stores opened during the year.

Group Capital Expenditure was \$21.0 million, with \$9.8 million in new store fit-out, \$7.8 million in supply chain and IT projects and \$3.4 million in general maintenance and enhancement projects.

Looking ahead

Peter Birtles commented, “We anticipate that trading conditions will continue to be quite challenging during the coming year but we are confident that the initiatives we have in place will enable our businesses to continue to grow market share and improve profit margins.”

“We anticipate that Supercheap Auto will open between 10 and 15 new stores in the coming year of which some stores will be tests of the new formats. BCF is also planning to open between 10 and 15 new stores, extending its network throughout Queensland, New South Wales, Western Australia and the Northern Territory.”

For further information contact Peter Birtles, Managing Director or Gary Carroll, Chief Financial Officer on 07 3205 8511.