

Super Cheap Auto Group

Development of a Bicycle and Accessories Retail Business
Acquisition of Goldcross Cycles

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- Super Cheap Auto Group has been analysing a number of opportunities to develop a new category killer retail business
- The Group has determined that a value creating opportunity exists to build a national chain of bicycle and accessories stores
- The Group has decided that the most effective method to develop this opportunity is to acquire the Goldcross Cycles business and then expand the business
- The Group has signed an agreement to purchase Goldcross Cycles Pty Limited in mid June subject to successful assignment of property leases



1: The Bike Market (i)

- The Bicycle and Accessories market is estimated at over \$1bn (Source: Bicycle Industries Association 2006)
- New bike sales continue to grow:
 - 2007 – 1,427,738
 - 2006 – 1,199,854
 - 2005 – 1,168,601
 - 2004 – 1,247,991
 - 2003 – 1,003,844(Source: Australian Bureau of Statistics/Australian Customs/Cycling Promotion Fund)
- Cycling is the 4th most popular sport in Australia with participation by 6.3% of the population aged 15 and over (Source: Australian Bureau of Statistics 05-06 Participation in sports and physical recreation)
- It is anticipated that the bicycle market will continue to exhibit strong growth:
 - Government investment in cycle paths and promotion of cycling
 - Environmental concerns
 - Higher cost of fuel and frustration with traffic
 - Increasing focus on family health and well being
 - Growth in active retirees
 - Broader forms of cycling becoming a more recognised activity – Mountain bikes featuring in the Olympics



1: The Bike Market (ii)

- The Bike Market is highly fragmented
 - There are over 1,300 independent bike stores
 - K-Mart and Big W service the budget end of the market and children's bikes
 - There is the emergence of retail chains with Goldcross in Melbourne and the franchise chain Bike Force in Perth and Brisbane.
 - Pacific Brands with Bike Hub and Avanti with Avanti Plus are establishing bike stores with licensees that sell their bike brands.
 - Flight Centre announcing interest in bicycle retail and wholesale markets.
- Market Power is largely held by the distributors/wholesalers who allocate their bikes to stores on the basis of territories.
- In Australia, Specialist Bike Stores service around 30% of the market. In the US, Specialist Bike Stores service around 70% of the Market through the emergence of National Chains (e.g., Performance Bikes)



2: The Retail Opportunity

- To develop a chain of 50 category killer bike and accessories superstores across metro Australia.
- The stores would offer the widest and deepest range of bikes, accessories, parts and apparel, supported by servicing and fitting, catering for the novice through to the enthusiast .
- These stores would typically be located in bulky goods shopping areas or in shopping centre pad sites and would be around 1,000m2.
- It is anticipated that these stores would operate in population centres of around 150,000 to 250,000 people.
- Future opportunities exist to build a chain of satellite stores across regional Australia and to expand the network into New Zealand.



3: Leveraging The Group's Capabilities

- The development of the bicycle and accessories retail business will leverage the Group's core competencies:
 - Store Development
 - Retail Operations
 - Range Management
 - Own Brand Development
 - Overseas Sourcing
 - Marketing and Promotion
- The bicycles and accessories retail model is similar to the Group's existing businesses
 - Products for leisure activities
 - Operating from bulky goods retail precincts
 - Customer profile skewed towards Male and Family
 - Similar Mix of hard goods and consumables
- The Group's organisation has been built to support additional retail businesses:
 - Common processes and systems across the Group
 - Scalable systems and logistics infrastructure
 - Group shared services model for non customer facing activities



4: Goldcross Cycles

- Goldcross Cycles is the largest wholly owned chain of bicycle retailers in the country with a network of 11 stores in the greater Melbourne area.
- The business has been operating for 30 years. The Head Office is above the Narre Warren store.
- The business was established and is still managed today by David Hall who is the sole shareholder.
- Typical store sizes are between 500m2 and 1000m2.
- Australian Bicycles Pty Ltd (100% owned by David Hall) has secured supply arrangements with Advanced Sports Inc for the exclusive supply of bikes and accessories under the Fuji, SE and Kestrel Brands.
- Australian Bicycles Pty Ltd supplies bikes and accessories sourced from Advanced Sports Inc at a wholesaling margin to Goldcross Cycles.
- Further details can be found at www.goldcross.com.au



5: Summary of the Agreement

Goldcross Cycles Pty Ltd

- To purchase 100% of the issued share capital for circa \$6m
- Final value based on stock value at completion
- Debt assumed on completion circa \$5m
- A performance related payment payable in August 09 of up to \$3m based on profit achievement in FY09

Australian Bicycles Pty Ltd

- To purchase 50% of the issued share capital for circa \$1.4m
- Put/Call option to purchase the remaining shares at 50% of 6 times EBIT in the year of the option being exercised



6: Financial Impacts

- Goldcross Cycles is not expected to make a positive EBIT contribution until FY10
- Acquisition costs and business development costs will be around \$0.5m in FY08
- Business development and store opening costs will total around \$4.0m in FY09
- FY09 EBIT pre business development and store opening costs is estimated at around \$2.0m
- Initial plans are to open between 5 and 8 stores in FY09
- Stores are expected to achieve turnover of \$3.0m to \$3.5m after 3 years
- Investment per store is expected to be around \$0.4m in fixtures and fittings, \$0.7m in working capital and \$0.1m in opening costs

