



**Super Cheap Auto Group  
Annual General Meeting – 24 October 2007  
Managing Director's Presentation**

Thank you Dick. Good Morning Ladies and Gentlemen. It is a great pleasure to be able to discuss our Company's progress with you.

At last year's Annual General Meeting, I spent some time outlining our 5 core strategic themes:

- Expanding the Supercheap Auto network
- Driving Like for Like Sales growth in Supercheap Auto
- Expanding the BCF network
- Developing our Procurement and Supply Chain capabilities
- Developing our People

During the last 12 months, we have continued to focus on these 5 themes and the results delivered in the 2006/07 financial year are a direct result of the initiatives that we have implemented in these areas. As I will explain later, we are continuing to concentrate on these 5 themes in 2007/08 but let's spend a few moments reflecting on the 2006/07 year.

**Turning firstly to our overall Group Results:**

Dick has covered our sales and profit performance but I would also like to highlight our investment and cash flow. During the year we invested \$45 million in new and refurbished stores and a further \$8 million in IT and Supply Chain projects.

Operating cash flow pre investment increased by \$15 million over the prior year to \$61 million. As a result our investments were largely funded through our operating cash flow.

Net debt at June 2007 was \$93 million, an increase of \$13 million over the prior year. We continue to retain significant capacity in our debt facilities to fund further investments.

**Turning to our Supercheap Auto business:**

Sales grew by 9% and EBIT by 14% over the prior year. This is a very strong result for a business that is operating in a retail market segment that is showing little overall growth.

Like for like sales growth strengthened during the year with growth of 4.1% for the full year and growth of 5.0% in the second half. This was the strongest like for like sales growth performance that Supercheap Auto has delivered for four years.

Supercheap Auto's performance was achieved primarily through market share gains which were driven by a range of store format, merchandising and marketing initiatives.

At the start of the year we completed the successful trial of a new store format at our Chermside store. For those of you who haven't seen the new format, the Chermside store is less than 2 minutes away from our location this morning, so please take the time to have a look. Following the trial, we have embarked on a program of refurbishing our highest trading stores and by the end of June, 14 stores had been completed.

We have been working closely with our suppliers to broaden the range of brands and products available in our stores and in improving the quality of our own brand products. We have extended our offer with wider ranges of car audio and navigation equipment, motorbike products, performance products and travel accessories. The focus on quality has led to a significant reduction in product returns from our customers and we are particularly excited by the recent launch of our new range of SCA own brand products.

We have changed the focus of our advertising to highlight the broad range available in our stores as well as the fun and friendly culture of our business. Our sponsorship of the Supercheap Auto Bathurst 1000 highlights our support for motor sport which is a passion shared by many of our target customers. We have recently announced that we have renewed our sponsorship of the Bathurst 1000 for the next 3 years.

We opened 14 new Supercheap Auto stores during the year. Four of the new stores were in the smaller 400 format, a 400m<sup>2</sup> store, with a lower investment in space and inventory, which enables the business to operate in smaller regional towns or more expensive metro locations. We also opened a trial store under the sub brand of Supercheap Auto - Pitstop a 200m<sup>2</sup> store operating inside a shopping centre.

During 2006/07 Supercheap Auto has cemented its position as the leading retailer of auto parts and accessories across Australia and New Zealand and we are confident that the business will further enhance its position in the coming year.

#### **Now let's have a look at our BCF business:**

In what was its first full year of trading, BCF delivered sales of \$99 million and an EBIT of \$1.8 million or \$6.6 million before taking account of the costs associated with opening new stores.

This is an excellent result with BCF ahead of schedule at June 2007 on all of its key targets; store numbers, sales, gross margin and EBIT. These results have been delivered at the same time as constraining investment in inventory and new store fitout below launch projections.

BCF opened 18 stores during the year which took total store numbers to 31, with 19 throughout Queensland, six in Western Australia, five in New South Wales and one in Darwin.

We now have two store formats; the larger 2,000m<sup>2</sup> superstore and a 1,200m<sup>2</sup> regional store. Following a successful trial of the 1,200m<sup>2</sup> store at Noosa, we opened further smaller stores at Bundaberg and Gladstone.

All 3 major categories delivered strong growth in both sales and gross margin during the year as we introduced new products, tailored the offer to local market demand and worked with our suppliers to deliver product exclusives and improvements to trading terms.

Every day, we are learning more about the dynamics of the boating, camping and fishing markets and the differences in demand patterns across the varying locations of our stores. We are continuing to refine the business with the benefit of this experience and we remain confident in the opportunity to develop a national network of BCF stores that will generate a significant contribution to Group Earnings in the coming years.

#### **Turning now to our Group Logistics and Shared Services functions:**

During 2006/07 we increased the scale of our distribution operations in Melbourne and Auckland as part of our plan to develop a more balanced and more efficient network of distribution centres. This in conjunction with a number of freight efficiency initiatives generated a reduction of 0.2% points in the logistics cost of doing business for the 2<sup>nd</sup> year in a row.

The Group established its overseas sourcing operation in Hangzhou to the west of Shanghai in late 2006. The sourcing team will have a focus not only on sourcing new and lower cost product but also on improving quality, packaging and logistics operations.

We also completed a successful upgrade of our core IT system on time and under budget. The upgrade provides us with the functionality to enhance our merchandising and supply chain operations.

Dick earlier highlighted the role that our whole team plays in the delivery of our results and I would like to add my recognition of their contribution. We have been working to a very full agenda with a number of significant initiatives being implemented by our team. I am fortunate to be supported by a first class team of executive leaders and to lead a Group in which our team have a high degree of pride and passion for their jobs and for the business.

**I would now like to spend some time outlining our plans for the coming year and the progress that we have made to date:**

As I mentioned earlier, we are continuing to focus on our 5 core strategic themes so I will outline the key initiatives in each of these areas:

**Firstly, Expanding the Supercheap Auto Network.**

We believe that the Supercheap Auto has the potential to grow to a network of around 300 stores. We plan to open 10 new stores, close 1 store and relocate 1 of our existing stores during the 2007/08 year. To date, we have opened 2 stores and closed 1 store.

One of the new stores is a second trial store for the Supercheap Auto – Pitstop at the Westfield shopping centre in Hurstville, Sydney. We will review the performance of our 2 trial Pitstop stores over the coming months and make a decision on the potential for this format post Christmas.

We have also recently reformatted our Caboolture store to trial a 1,100m<sup>2</sup> super store featuring an extended product range. Initial customer reaction has been strong and we will make a decision on the potential for this format by the end of the financial year.

**Turning now to Driving Like for Like sales growth in Supercheap Auto:**

We are planning to refurbish around 30 of our existing stores during 2007/08 and by this weekend we will have already refurbished 13 stores.

We are continuing to extend our range and service offer with the introduction of a range of garage storage solutions and extensions to our range of travel and touring products. We have also recently launched Supercheap Auto Car Insurance and a new volume discount offer for Trade customers. We have also completed the rollout of our Fitment Services offer across all stores.

We are now working on initiatives to improve our in store customer service and to reduce out of stocks in store.

The 2007/08 year has started well with the business delivering like for like sales growth of 3.9% and total sales growth of 7.5% in the 13 weeks to 29 September 2007.

**Moving onto our plans to expand the BCF Network:**

The performance of BCF has demonstrated the potential for over 60 stores across Australia. As of this weekend, we will have opened a further 7 new stores so far this financial year which takes total store numbers to 38.

We started the year planning to open between 10 and 15 stores and our progress to date indicates that 15 is an achievable target. The new stores will primarily be in Queensland, New South Wales and Western Australia.

We are close to completing our ranging work for the Victorian and South Australian markets and we start to look for new store opportunities in those markets.

Our new stores will be a combination of the 2,000m<sup>2</sup> and 1,200m<sup>2</sup> formats.

The 2007/08 year has also started well for BCF with total sales growth of 95.9% and like for like growth of 9.6% in the 13 weeks to 29 September 2007.

#### **Turning to Developing Procurement and Supply Chain Capabilities:**

We have a number of initiatives targeted towards a further reduction in supply chain costs as a % of sales.

We have just commenced the relocation and expansion of our distribution centre operations in Melbourne and will be restructuring this facility from an outsourced arrangement to a company managed operation. This facility will allow us to reduce freight movements and our reliance on 3<sup>rd</sup> parties at peak trading periods. We will be investing around \$5 million in establishing the new facility of which \$1 million will be expensed in the 07/08 year.

We will be leveraging the investment that we have made in recent years in upgrading our IT systems to introduce more efficient supply chain methods such as cross dock, flow thru and port splitting.

In addition, our overseas sourcing team are expected to deliver a positive contribution to gross margins in the 07/08 year.

#### **And Finally Developing our People:**

We are very proud of the culture that we have developed and we know that our team members enjoy working in our Company. However, we face an ever more competitive environment for our people. Relatively full employment and the resources boom have increased remuneration levels, and the number of young people looking for a career in retail has fallen and is forecast to fall further over the next few years.

We have decided that our primary response to this environment is to offer better development opportunities for our team members than our competitors. This could be in the form of learning and development opportunities or through leadership opportunities or through the chance to work on major strategic projects.

We will support this through the enhancement of our incentive arrangements, offering a broader range of non financial benefits and through reducing the burden of unnecessary and inefficient working practices.

The early signs are positive with our retention rates increasing during 2006/07 and improving further so far this year.

Ladies and Gentlemen, we are proud of the achievements and the results we have delivered in the 2006/07 year and we are confident that we are focussing in the right areas to continue to drive the performance of our businesses and to grow the value of our Company in the coming years. I look forward to reporting on our progress at future meetings.