

# Super Cheap Auto Group

## Annual General Meeting Presentation

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# ***AGM Presentation***



- 2005/06 Group Results
- Group Strategy Update
- Q1 2006/07 Trading Results

# *2005/06 Group Results*



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## 2005/06 Group Results - Highlights

- Underlying Group EBIT increasing by 11%
  - Supercheap Auto gaining market share and at the same time growing gross and net margins in difficult trading conditions
  - Average inventory investment across Supercheap Auto stores reducing by over 10% whilst improving on shelf availability
  - The successful launch of BCF with sales and profit exceeding launch expectations
  - New store investment of \$37m fully funded by operating cash flow
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- ✓ *demonstrating the strength of the business model*
  - ✓ *reaping the benefits of our investment in developing our expertise and our systems in merchandising and supply chain management*

# Group Results

## – 52 Weeks to 1 July 2006



- Strong underlying profit performance driven by good control of gross margins and costs
- Strong cash flow arising from inventory reductions, while improving store in-stock positions
- Net Debt increased by circa \$6m after \$37+m investment in new SCA stores and BCF launch
- Reported results are negatively impacted by long-term investment in BCF and inventory valuation adjustment in prior year. These impacts have been excluded in the underlying results
- Dividend increased to 8cps, representing 50% payout ratio

|                     | \$m   | Reported change on py | Underlying change on py |
|---------------------|-------|-----------------------|-------------------------|
| Sales               | 525.9 | 11.9%                 | 14.0%                   |
| EBITDA              | 39.6  | (8.8%)                | 14.9%                   |
| EBIT                | 28.9  | (17.7%)               | 11.2%                   |
| Earnings            | 16.5  | (24.0%)               | 8.7%                    |
| Operating Cash Flow | 26.8  | +\$22.8m              |                         |
| Net External Debt   | 80.9  | +\$5.7m               |                         |
| Dividend            | 8.0c  | +1.5c                 | 23.1%                   |

# Supercheap Auto Results

## - 52 weeks to 1 July 2006



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- Store opening schedule on track
  - 234 Stores at 1 July 2006
  - 196 in Australia and 38 in New Zealand
- Market share gains achieved in all major categories with both total and LFL growth ahead of the overall market
  - ABS report 2.2% decline in auto products retail market
- Gross Margin improved by 0.8% pts reflecting:
  - Improvements in range and promotional planning
  - Improved trading terms
  - Reductions in logistics costs
- Operating Costs increased by 0.5% pts:
  - Marketing costs have increased by 0.4% pts through Bathurst investment and additional price and promotion advertising
  - Occupancy costs increased by 0.4% pts
  - Reduction of 0.3% pts in other costs

|                          | 2006<br>\$m | % change<br>on py |
|--------------------------|-------------|-------------------|
| <b>Sales</b>             |             |                   |
| - Total                  | 481.8       | 3.6%              |
| - Underlying             |             | 5.6%              |
| <b>Gross Margin % *</b>  | 40.1%       | +0.8%pts          |
| <b>EBITDA</b>            |             |                   |
| - Underlying *           | 42.5        | 10.0%             |
| <b>EBITDA Margin % *</b> | 8.8%        | +0.3%pts          |
| <b>EBIT</b>              |             |                   |
| - Underlying *           | 32.4        | 6.8%              |
| <b>EBIT Margin % *</b>   | 6.7%        | +0.1%pts          |

•- 2005 excluding benefit of abnormal inventory valuation adjustment and 53 week trading period.

# BCF Results

## - 52 weeks to 1 July 2006



- Business launched as BCF on 15 October 2005
  - 4 stores traded under Camp Mart brand from start of the year until BCF launch
- Store Numbers:
  - 31 Dec 2005 - 12
  - 1 July 2006 – 13
- Camping and Fishing categories have exceeded expectations. Boating has been in line but there are opportunities to drive performance by rebalancing space towards products for smaller boats.
- Gross margin was 1.2%pts above target, with further improvement expected in future years
- Despite \$0.7m in non-cash AIFRS costs that were not anticipated at the time of launch, EBIT margin was significantly ahead of expectations

|  | 2006<br>\$m | Launch<br>Target \$m |
|--|-------------|----------------------|
| Sales                                  | 44.2        | 40.0                 |
| <i>Gross margin</i>                    | 35.7%       | 34.5%                |
| EBIT pre set up costs<br>& AIFRS costs | 2.1         | 1.2                  |
| EBIT pre set-up costs                  | 1.4         | 1.2                  |
| <i>EBIT margin (pre set-up costs)</i>  | 3.2%        | 2.5%                 |
| Set-up costs                           | (4.8)       | (5.0)                |
| EBIT                                   | (3.4)       | (3.8)                |
| Inventory Investment                   | 17.2        | 21.0                 |

# Group Cash Flow

## - 52 weeks to 1 July 2006



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- Strong cash flow performance driven by the reduction in net inventory investment per store
  - This has delivered a cash flow benefit of \$12.1m
- New Store Fit-out includes \$4.6m in SCA and \$5.2m in BCF
- Other Investing Activities in 2005 relates to the Camp Mart acquisition
- SCA and BCF business expansion has been fully funded through operating cash flow
- 2005 operating cash flow negatively impacted by \$21.8m of additional trade creditor payments due to timing of year end balance date – no effect on 2006

|   | 2006<br>\$m | 2005<br>\$m  |
|---|-------------|--------------|
| Operating cash flow<br>(pre store set up)   | 45.9        | 15.2         |
| New store set-up costs &<br>working capital | (19.1)      | (11.2)       |
| <b>Operating cash flow</b>                  | <b>26.8</b> | <b>4.0</b>   |
| Investing activities:                       |             |              |
| - New store fitout                          | (9.8)       | (5.6)        |
| - Other capex                               |             |              |
| -Maintenance                                | (3.4)       | (3.4)        |
| -IT & Supply Chain                          | (7.8)       | (7.7)        |
| - Other                                     | 0.2         | (8.0)        |
| Financing activities:                       |             |              |
| - Dividends & interest                      | (11.9)      | (10.9)       |
| - Ext Debt repay/proceeds                   | 6.0         | 24.2         |
| <b>Net cash flow</b>                        | <b>0.2</b>  | <b>(7.2)</b> |

# *Group Strategy Update*



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# *Strategic Priorities*

- Reinvigorating the Supercheap Auto offer
- Expansion of the Supercheap Auto network
- Expansion of the BCF network
- Improving margins to fund reinvestment and grow profits
- Developing our Procurement and Supply Chain capabilities
- Developing our People



# *Reinvigorating the SCA offer*

- Chermside concept store trial proving successful
  - Customer reaction positive with sales uplift > 15%
- Refurbishing 10 higher turnover stores by Christmas
  - Burleigh store refurbished at beginning of September – sales uplift > 15%
  - Rockhampton and Browns Plains stores launch this weekend
- Range development
  - Launch of Motorbike products and national brand tools offer
  - Caravanning products being trialed
  - Local ranging opportunities
  - Fitment services trial being extended to Brisbane metro
- Marketing revamp completed
  - New TVCs
  - New in store signage and ticketing
  - New catalogues
- Quality focus reducing returns



# *Expansion of the SCA Network*

- 239 stores trading today
  - 5 stores opened so far this year
- Development of 4 discrete formats
  - Existing '700' format stores
  - '400' format stores – smaller regional and higher rental urban locations
  - '200' format stores – trial of shopping centre opportunities
  - Superstore – extended range and service offering
- Expect to open 10 to 15 new stores in FY07
  - 6 to 11 new '700' format stores
  - 2 new '400' format stores
  - 2 new '200' format store
- Reconfiguration of existing stores to be tested
  - 2 undersized/underperforming '700's to be converted to '400's
  - 1 oversized '700' to be converted to a Superstore
- Multi format approach provides opportunity to open over 300 stores and achieve internal ROC hurdles



## *Expansion of the BCF Network*

- 17 stores trading today
- Opened 4 new stores at Midland and Cannington (WA) and West Gosford and Port Macquarie (NSW) since 1 July
- Expect to open at least another 6 stores before Christmas
- New Stores will be targeted towards NSW, WA, NT and Qld
- Performance to date has demonstrated potential for smaller size formats to supplement the planned 50 to 60 destination stores
  - Will test 2 stores in the 2<sup>nd</sup> half
- Expect to open at least 15 stores during the year

# *Improving Margins and Developing Procurement and Supply Chain Capabilities*



- Procurement gains have generated an 0.5% pt improvement in gross margin – further improvement anticipated in FY2007
- Overseas sourcing team operating out of Hangzhou offices
- Relocated New Zealand distribution centre in June
  - Allows direct shipment of product to NZ ex Asia
  - Allows more local sourcing in NZ
  - More efficient operation
- Generating reductions in Freight costs
  - Expanding Melbourne third party DC
  - More efficient freight methodologies introduced
- Logistics costs as a % of sales have reduced by 0.2% pts – similar improvement anticipated in FY2007



# *Developing our People*

- The successful development and retention of loyal and passionate team members will be a source of competitive advantage for the Group
- Introducing a suite of team member development programs
  - Leadership development
  - Product knowledge
  - Customer service
  - Process and systems knowledge
- Redesigned the Supercheap Auto Management Retail Training Academy
- Introducing business planning at a store level to generate greater accountability for store performance
- Revising Remuneration structures within Supercheap Auto to create an increased incentive towards profit generation
  - Monthly sales incentive for all store team members
  - 6 monthly profit share arrangement for store managers

# *Q1 2006/07 Trading Results*



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# ***Q1 2006/07 Trading Results***

- **Supercheap Auto**

- Strongest sales performance for 6 Quarters
  - discretionary and non discretionary categories performing well
  - increased promotional program compared to the prior year
  - positive response to new marketing campaign
  - 2 refurbished stores exceeding initial expectations
- New store opening program in line with expectations
- Gross margins and expenses in line with expectations

- **BCF**

- New store opening program ahead of budgeted expectations
- Existing stores growing sales in line with expectations
- Developing our understanding of seasonal impacts
- Gross margin and expenses in line with expectations



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## Q1 2006/07 Trading Results

| 1 <sup>st</sup> Quarter Sales | 2006<br>\$m | 2005<br>\$m | Total<br>Growth<br>% | LFL<br>Growth<br>% |
|-------------------------------|-------------|-------------|----------------------|--------------------|
| <b>Supercheap Auto</b>        |             |             |                      |                    |
| Australia                     | 113.6       | 103.1       | 10.2%                | 3.7%               |
| New Zealand                   | 12.7        | 12.0        | * 5.8%               | 0.4%               |
|                               | 126.3       | 115.1       | 9.7%                 | 3.3%               |
|                               |             |             |                      |                    |
| <b>BCF</b>                    | 14.8        | 3.1         | 377%                 | n/a                |
|                               |             |             |                      |                    |
| <b>Group</b>                  | 141.1       | 118.2       | 19.4%                | n/a                |

\* Total growth in New Zealand stores in local currency – 16.8%