

# Super Cheap Auto Group

Results for the 26 weeks to 31 December 2005

23 February 2006

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# Group Results

– 26 Weeks to 31 December 2005



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- Strong underlying profit performance driven by good control of gross margins and costs
- Strong cash flow arising from inventory reductions
- Net Debt reduced by \$4.4m despite \$28m investment in new SCA stores and BCF launch
- Reported results are negatively impacted by long term business investment in BCF and Bathurst:
  - This impact has been excluded in the underlying results – for details on the calculation see Appendix 1
- Reported sales performance benefited from post Christmas weeks trading not reflected in prior year comparisons – this benefit has been excluded from the underlying results.

	\$m	Reported change on py	Underlying change on py
Sales	264.7	19.3%	14.3%
EBITDA	16.1	(27.5%)	16.1%
EBIT	11.1	(39.3%)	18.1%
Earnings	6.0	(47.3%)	17.1%
Operating Cash Flow	22.5	+\$11.5m	
Net Debt	70.8	+\$4.4m	(since June)
Dividend	3.0c	50%	

# Super Cheap Auto Results

## - 26 weeks to 31 December 2005



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- Store opening schedule on track
  - 225 Stores at 31 December 2005
  - 14 stores opened during 1<sup>st</sup> half - 9 in Australia and 5 in New Zealand
- Stronger performance across Oils, Batteries, Car Care, Electrical. Below par performance across Parts, Car Audio and Paint & Panel
- Gross Margin improvements reflects improvements in range and promotional planning
- Reduction in reported EBIT margin reflects the incremental Bathurst advertising and promotion.
- Underlying EBIT margin has improved in line with the increase in gross margin
- Marketing costs (excluding Bathurst) have increased by 0.3 % pts through additional price and promotional advertising
- Other operating costs have reduced as a % of sales by 0.3% pts.
- AIFRS impact has reduced SCA EBIT by \$0.9m – equivalent to 0.4 % pts from EBIT margin

	2005 \$m	% change on py
<b>Sales</b>		
- Total	246.2	11.0%
- Underlying		6.3%
- LFL		(0.5%)
<b>Gross Margin %</b>	39.0%	+0.2%pts
<b>EBITDA</b>		
- Reported *	18.4	0.5%
- Underlying		7.1%
<b>EBIT</b>		
- Reported *	13.7	(0.8%)
- Underlying		7.7%
<b>EBIT Margin %</b>		
- Reported	5.6%	
- Underlying	6.4%	+0.2% pts

\* - 2004 excluding benefit of abnormal inventory valuation adjustment.

# BCF Results

## - 26 weeks to 31 December 2005



- Business launched as BCF on 15 October 2005
  - 4 stores traded under Camp Mart brand from start of the half until BCF launch
- 12 BCF stores at 31 December 2005
- Performance across the business better than initial projections
  - Stronger sales
  - Stronger gross margin
  - Costs in line
  - Lower inventory investment
- Camping and Fishing categories have exceeded expectations. Boating has been in line but opportunities to drive performance by rebalancing space towards products for smaller boats.
- Sales have been pleasing in all locations with stronger performers within 30 minutes of the coast.
- Business is attracting high quality team members who have a passion for the business.

	2005 \$m
Sales	18.5
<i>Gross margin</i>	35.5%
EBITDA pre set up costs	1.6
EBIT pre set-up costs	1.4
<i>EBIT margin (pre set-up costs)</i>	7.6%
Set-up costs	(4.0)
EBIT	(2.6)



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# Group Cash Flow

- Strong cash flow performance driven by the reduction in net inventory investment per store in the SCA business
  - This has delivered a cash flow benefit of \$12.1m
- When comparing against 2004, the 2005 Cash flow has also received a net benefit of circa \$6m from timing differences through the inclusion of the post Christmas week
- New Store Fit-out includes \$2.8m in SCA and \$6.0m in BCF
- Other Capex is lower than 2004 as the result of the timing of expenditure on Supply Chain and IT projects
  - Anticipate full year other cap ex of c\$10m in line with the prior year
- SCA and BCF business expansion has been fully funded through operating cash flow

	2005 \$m	2004 \$m
Operating cash flow (pre BCF set up)	34.3	11.1
BCF set-up costs & working capital	(11.8)	-
<b>Operating cash flow</b>	<b>22.5</b>	<b>11.1</b>
Investing activities:		
- New store fitout	(8.8)	(4.0)
- Other capex	(2.3)	(4.1)
- Other	0.2	(0.1)
Financing activities:		
- Dividends & interest	(7.2)	(5.9)
- Debt repayment/proceeds	(4.6)	2.2
<b>Net cash flow</b>	<b>(0.2)</b>	<b>(0.8)</b>



# Group Balance Sheet

- SCA average inventory per store reduced from \$568k at June to \$511k at December
  - Improved inventory management resulting from supply chain focus and investment in forecasting and replenishment systems
  - Has been achieved whilst improving the in stock position in store
- BCF average inventory investment per store of \$1.3m is \$0.2m below original projections
- Increase in Plant and Equipment as a result of capital expenditure of \$8.8m in new stores
- Reduction in Net Debt of \$4.4m achieved despite:
  - \$9.8m investment in new SCA stores
  - \$17.8m investment in BCF business including fixtures, stock and set up costs
- Capitalised computer software now disclosed as an intangible asset

	Dec 2005	June 2005
	\$m	\$m

Inventory		
- SCA	115.5	120.5
- BCF	15.7	2.7
Total	131.2	123.2
(Trade creditors)	(45.5)	(33.0)
Net inventory investment	85.7	90.2

Plant and Equipment	48.8	41.5
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Net debt	70.8	75.2
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# Group Key Financial Ratios

- Investment in BCF launch and Bathurst investment has impacted on reported financial ratios
- Underlying performance is positive
- AIFRS has had a minor detrimental impact on the ratios due to the change in accounting for fixed rate lease arrangements
  
- *All ratios calculated on underlying results*
- *Adjusted capital included leases capitalised into debt at 6x annual charge*

	<b>Dec 2005</b>	<b>Dec 2004</b>
EPS pre abnormals	9.6c	7.7c
Fixed charge cover	2.0x	2.0x

	<b>Dec 2005</b>	<b>June 2005</b>
Net debt : capital		
- Headline	40.1%	41.8%
- Adjusted	72.1%	71.7%
Annualised ROC		
- Headline	13.1%	12.8%
- Adjusted	12.5%	12.3%



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# Impact of AIFRS

## Explanation of AIFRS adjustments:

- Lease make good costs – under AIFRS projected costs to be incurred at the end of a lease are expensed over the life of the lease
- Goodwill amortisation is not allowed under AIFRS – Goodwill is subject to an impairment testing with any diminution in value to be expensed
- Straight lining of fixed rate increases. Companies are required to account for fixed rate increases in operating leases on a straight line basis.
  - Costs incurred in the early years of a lease will be credited back over the final years
- Other relates predominantly to costs associated with refunds and executive options schemes.
- All AIFRS adjustments do not impact on the cash flows of the Group.

	2005	2004
	\$m	\$m
<b>Reported EBIT under AGAAP</b>	<b>10.5</b>	<b>18.2</b>
Lease make good costs (AASB137)	(0.1)	(0.1)
Goodwill amortisation (AASB3)	1.5	1.3
Straight lining of fixed rate increases (AASB117)	(1.1)	(0.9)
Other	0.3	(0.2)
<b>Reported EBIT under AIFRS</b>	<b>11.1</b>	<b>18.3</b>

# Super Cheap Auto Group

## Group Strategy Update





# *Group Strategy Update*

- Driving LFL sales growth in Supercheap Auto
- Expansion of the Supercheap Auto network
- Expansion of BCF network
- Developing Procurement and Supply Chain capabilities
- Developing our people



# *Driving LFL Sales Growth in SCA*

- Investigating new category opportunities
- Developing local ranging capabilities
- Focus on enhancing product knowledge and selling skills across our team
- Drive to reduce product quality issues with some imported lines
- Trialing new store layout
- Targeted refurbishment & maintenance programme to address presentation issues with some existing stores
- Refreshing the brand – new marketing campaign under development including new catalogue layout, new TVCs etc.,
- Reviewing balance of investment in short term promotional marketing investment vs longer term customer retention investment



# *Expansion of SCA Network*

- 227 stores trading today
- Expect 233 stores by 30 June
- Market opportunities exist for 300+ stores
- Current format may have potential for 250 to 270 stores
- Investigating opportunities for alternative formats
  - Convenience model
  - Extended range model



## *Expansion of BCF Network*

- Performance to date has reinforced confidence in potential for at least 60 stores
- 13 stores trading today
- Will open between 10 to 15 new stores in 2006/07
- New Stores will be targeted towards NSW, WA and Qld
- Business will investigate acquisition opportunities if organic opportunities do not crystallise
- Anticipate \$80m in sales in 2006/07 and EBIT of circa \$5 to \$7m pre store set-up costs of \$5m

# *Developing Procurement and Supply Chain Capabilities*



- Establishing container consolidation operation managed by third party in Ningbo - China
- Developing domestic logistics facilities
  - Expanding Melbourne third party DC
  - Rationalising third party facilities in Brisbane
  - Expanding New Zealand DC
- Category procurement strategies being developed to reduce cost of goods improvement in both Australia and NZ
- Reviewing arrangements for sourcing product ex Asia
- Group logistics function focusing on reducing logistics costs as a % of sales



# *Developing our People*

- New Senior Management responsibilities now in place
  - David Ajala – Chief Operating Officer – SCA
    - Joined SCA in July 2005
    - Extensive merchandise and retail management experience within Coles Supermarkets
  - Steve Doyle – Chief Operating Officer – BCF
    - Joined SCA in May 2002
    - Previous roles include Marketing Manager, GM - Retail Operations and GM – Merchandising within SCA
  - Responsible for managing the Merchandise, Marketing and Retail strategies and operations of the two retail businesses
  - Supported by Group Services across Logistics, Human Resources, Property, Finance and Information Technology
- Increased focus on people development
  - Management capabilities
  - Product knowledge
  - Selling skills
  - Process and systems knowledge
- Reducing team member turnover is an opportunity for the Group

# Super Cheap Auto Group

Outlook for Full Year FY06





# ***Outlook for Full Year FY06***

## **Super Cheap Auto**

- Full year sales expected to be between \$490 and \$495m
- Year on year savings in advertising expenditure in the 2<sup>nd</sup> half
- AIFRS - Full year impact will be circa \$2m additional occupancy costs
- EBIT margin expected to be circa 6.8% for the full year (post AIFRS)

## **BCF**

- Full year sales expected to be around \$45m
- Full year EBIT pre set-up costs expected to be between \$2m and \$3m – better than initial projections
- Full year set-up costs forecast at \$5m

## **Dividend**

- The impact of BCF set up costs and AIFRS will be added back for assessment of dividend payment

# Super Cheap Auto Group

## Appendices





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# Appendix 1: Underlying Group Results - 26 weeks to 31 December 2005

- The Group's reported results have been impacted by long term business investment
- \$4.0m of BCF set up costs:
  - Concept development costs
  - Pre launch operating costs
  - Store set up costs
  - Launch advertising
- \$2.0m Incremental Bathurst related marketing and sponsorship
  - Has been funded through increasing advertising expenditure into the 1<sup>st</sup> half
  - There will be a corresponding decrease in the 2<sup>nd</sup> half spend vs the prior year
- Boxing Day benefit represents the profit benefit arising from the Boxing Day sale period that is included in 2005 but not included in the 2004 results
- Inventory valuation was a one-off profit benefit arising from a change in inventory valuation methodology as reported in the 2004/05 results.

EBIT	2005 \$m	2004 \$m	% change on py
Reported results	11.1	18.3	(39.3%)
BCF set-up costs	4.0		
Bathurst investment	2.0		
Boxing Day benefit	(0.8)		
Inventory Valuation adj		(4.5)	
Underlying results	16.3	13.8	18.1%