



# Super Cheap Auto Group

Results for the 26 weeks to 27 December 2008

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19<sup>th</sup> February 2009

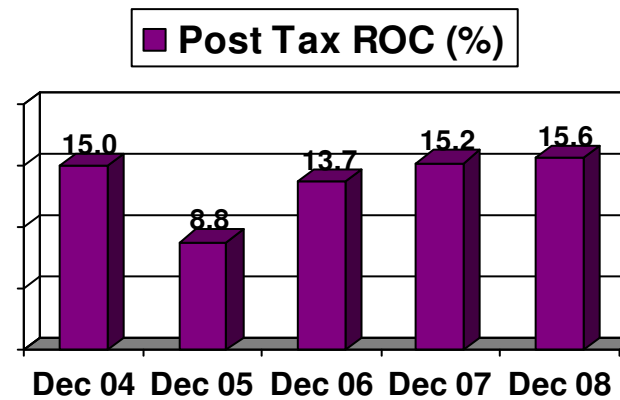
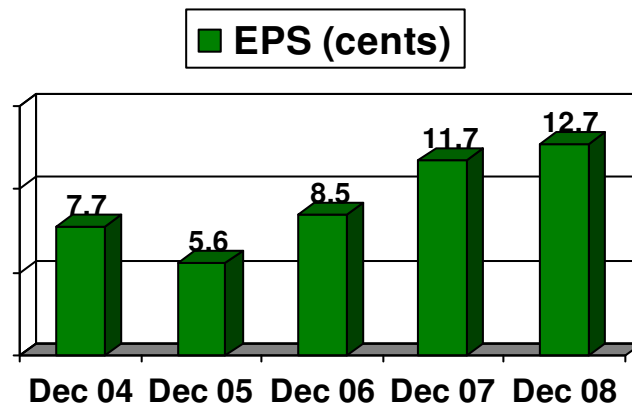
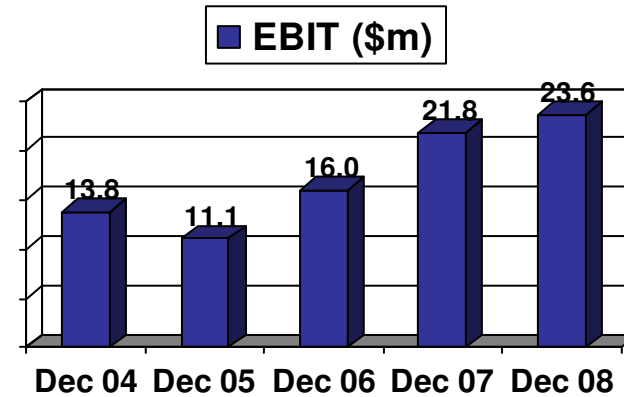
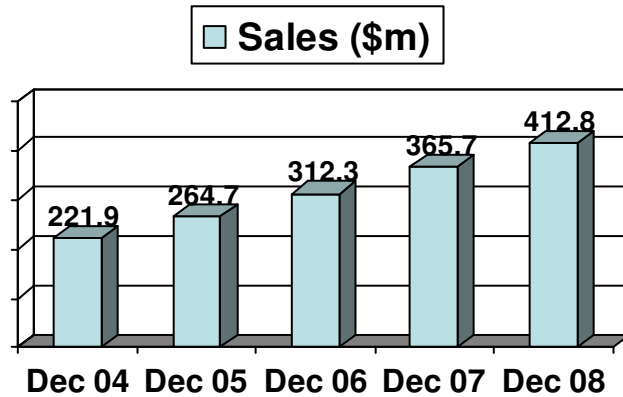


## *Group Highlights*

- Group Net Profit After Tax up by 9% over PCP
  - Group EBIT up by 8% over PCP
  - Group Sales up by 13% over PCP
- 
- Strong operational performance in both Supercheap Auto and BCF
    - Maintaining solid like for like sales growth
    - Growth in gross margins
  - Goldcross Cycles business development plan on track
    - Supply partners in place
    - Branding, marketing and store design completed
  - Investment in Logistics network in 2007 and 2008 delivering expected improvements in operational performance and reduction in operating costs
  - \$30 million invested in new and refurbished stores



# Performance Trends



## Group Results

- Strong underlying profit performance driven by top-line growth and gross margin improvement
- Solid sales growth in both SCA and BCF through both new store and LFL growth
- Overall EBIT and NPAT growth held back by investment in Goldcross
- Operating Cash Flow significantly ahead of EBITDA through effective working capital management
- Net Debt decreased by \$12.3m despite continued investment in new and refurbished store development
- Interim Dividend increased to 6.5cps, representing 51.1% payout ratio of earnings

	2008 \$m	Change on pcp
Sales	412.8	12.9%
EBITDA	32.2	10.1%
EBIT	23.6	8.2%
NPAT	13.6	8.7%
Operating Cash Flow	46.6	73.9%
Net External Debt	105.5	-\$12.3m (since June)
Dividend	6.5c	+1.0c



## Business Unit Results

	2008/09		2007/08	
	Sales \$m	EBIT \$m	Sales \$m	EBIT \$m
<b>Supercheap Auto</b>	302.6	19.5	287.4	18.1
<b>BCF</b>	101.6	7.9	78.3	4.8
<b>Goldcross</b>	8.6	(1.6)		
<b>Group Costs</b>		(2.2)		(1.1)
<b>Total Group</b>	412.8	23.6	365.7	21.8

*Group Costs include \$0.6m DC rents not charged to business units, \$0.4m bad debt provision and \$1.2m public company costs*



## Supercheap Auto Results

- 8% EBIT growth due to LFL sales growth, margin improvement and cost control
- LFL growth solid across Australia and New Zealand – builds on 4.7% LFL growth in PCP
- Store Development:
  - 25 stores refurbished
  - 5 new stores opened in the half
  - 1 store relocated
- Underlying gross margin % improved through benefits of range management, own brand development, sourcing activity and a reduction in supply chain costs
- End of calendar year 20/25% off sales falls into 2<sup>nd</sup> half this year
- Increased refurbishment activity resulted in higher wage and travel costs for the half.
- Good cost control at both stores and support office enabled EBITDA and EBIT margins to grow during the period.

	2008 \$m	change on pcp
<b>Sales</b>	302.6	5.3%
<b>LFL Sales</b>		4.5%
<b>Gross Margin %</b>	39.7%	+0.9%pts
<b>EBITDA</b>	26.3	8.7%
<b>EBITDA Margin %</b>	8.7%	+0.3%pts
<b>EBIT</b>	19.5	7.7%
<b>EBIT Margin %</b>	6.4%	+0.1% pts



## BCF Results

- 5 stores opened and one acquired during the half to bring total stores to 55
- Strong LFL growth of 6.8%, with good growth in all regions
- Strong growth across all categories, with apparel growing to 5.5% of sales
- Excellent Gross Margin performance generated through range management, improved trading terms and growing range of exclusives and own brand product
- Higher operating costs as a % of sales reflect both the timing of new stores and the higher cost ratios in the smaller format stores
- Benefit of Christmas is evident in 1<sup>st</sup> half EBIT Margin, although the increase was lower this year due to fewer new stores being opened in the pre Christmas period

	2008 \$m	change on pcp
Sales	101.6	29.8%
LFL Sales		6.8%
<i>Gross margin</i>	42.3%	+1.6%pts
EBITDA pre set up costs	11.1	+\$1.7m
EBIT pre set up costs	9.2	+\$1.4m
<i>EBIT margin (pre set-up costs)</i>	9.1%	-0.9%pts
Set-up costs	(1.3)	+\$1.7m
EBIT	7.9	+\$3.1m

## Goldcross Results

- 4 stores opened and 2 stores acquired during the half to bring total stores to 17
  - 11 in Melbourne
  - 6 in South East Queensland
- Range development complete and supply partners in place
- Sales from new Queensland stores are below expectation due to delayed openings, range gaps and current low level of brand awareness
- Melbourne stores delivering encouraging sales performance given range gaps
- Gross margin in line with expectations despite high level of market discounting.
- Business set up costs and capital investment in line with expectations

	2008 \$m
Sales	8.6
<i>Gross margin</i>	40.2%
EBITDA pre set up costs	(0.4)
EBIT pre set up costs	(0.6)
Set-up costs	(1.0)
EBIT	(1.6)



## Group Cash Flow

- Continued focus on working capital management has resulted in total growth investment of \$30m being fully funded out of operating cash flows
- New and Refurb Store Set Up Investment:
  - SCA : \$3.9m
  - BCF : \$5.3m
  - Goldcross : \$3.6m
- Store fit-out:
  - \$1.3m SCA new stores
  - \$5.5m in SCA refurb
  - \$2.4m in BCF new stores
  - \$1.7m in BCF apparel project
  - \$1.7m in Goldcross new stores
- Other Capex:
  - Reduction in spend on IT and Supply Chain projects as Supply Chain development project largely completed in FY2008
  - IT - \$1.9m vs \$3.2m
  - Supply Chain - \$0.2m vs \$4.6m
  - General maintenance – \$1.8m vs \$3.0m

	2008 \$m	2007 \$m
Operating cash flow (pre store set up investment)	59.4	44.2
New store set up investment (costs & inventory)	(12.8)	(17.4)
<b>Operating cash flow</b>	<b>46.6</b>	<b>26.8</b>
Investing activities:		
- Store fitout	(12.6)	(12.0)
- Other capex	(3.9)	(10.8)
- Business Acquisition	(4.6)	(1.5)
Financing activities:		
- Dividends & interest	(13.9)	(10.6)
- Ext Debt repay/proceeds	10.1	13.2
<b>Net cash flow</b>	<b>21.7</b>	<b>5.1</b>



## Group Balance Sheet

- SCA average inventory of \$587k per store up by 3.3% compared to PCP
  - Stock build for 20%/25% off sale which fell at the start of the 2<sup>nd</sup> half
  - Increased stock weight of higher value car audio and navigation products
  - Some cost increases due to commodity price and FX movements
- BCF average inventory per store down by 2% compared to PCP
  - Localised ranging
  - Mix of stores
  - Inventory optimisation initiative
- Increase in Plant & Equipment primarily as a result of capital expenditure in new and refurbished stores
- Net Debt decreased by \$12.3m in 1<sup>st</sup> half as a result of continued focus on working capital management, as well as reduction in expenditure for DC infrastructure

	Dec 08 \$m	Jun 08 \$m
Inventory		
- SCA	149.6	131.3
- BCF	63.3	57.0
- Goldcross	12.3	5.7
Total	225.2	194.0
(Trade creditors)	(135.2)	(91.2)
Net inventory investment	90.0	102.8
Plant and Equipment	86.1	79.6
Net External Debt	105.5	117.8

## Returns & Capital Ratios

- Increase in Interest Expense is primarily due to increased debt level compared to pcp reflecting investment in business development
- Fixed charge cover and adjusted capital ratios have deteriorated slightly due to Goldcross losses
- All cover ratios are well within covenanted levels
- Significant capacity available within existing debt facility. Core facility of \$120m matures in April 2010, with remaining \$80m facility subject to annual review
- Based on existing hedging position, full-year FX rate expected to be around 0.78 (2008: 0.84)
- *All ratios are calculated on underlying results (pre BCF and Goldcross set up costs)*
- *Adjusted capital includes leases capitalised into debt at 6x annual charge*

	2008	2007
EPS – reported	12.7c	11.7c
Fixed charge cover	1.9x	2.0x
Average Net Debt	\$135m	\$90m

	Dec 08	Jun 08
Net debt : capital		
- Headline	42.5%	46.5%
- Adjusted	76.5%	76.1%
Annualised post tax ROC		
- Headline	15.6%	14.1%
- Adjusted	14.0%	12.7%



# Super Cheap Auto Group

## Group Strategy Update



## ***Core Strategic Themes***

- Driving sales and margin growth in Supercheap Auto
- Driving sales and margin growth in BCF
- Developing the Goldcross business
- Developing Procurement and Supply Chain capabilities
- Developing Our People



## ***Driving Sales and Margin Growth in Supercheap Auto***

- Store Development
  - Expect to open one to two stores, relocate one store and close one store in the balance of 2008/09
  - Potential remains for 300 stores
  - Two existing stores to be converted to Superstores
  - Country model ready for trial
- Refurbishment program continues to deliver positive results
  - 74 stores now refurbished
  - Plan to refurbish 30 stores per year
- Consistent focus on range development
  - New product introduction
  - Partnering with National brand leaders
  - Continued own brand development (Best Buy / SCA / Calibre)
  - Service offerings (Fitment offer/ Trade Discount)
- Customer Service Development
  - Team Member knowledge
  - In store processes
- Brand Development
  - Safe driving Campaign
  - Motor Sport



## ***Driving Sales and Margin growth in BCF***

- Store Development
  - 55 stores trading today
    - QLD – 22; NSW - 13; WA - 11; VIC - 6; NT – 1; ACT - 2
  - Potential to open 70 stores
  - Expect to open a further three to five stores and relocate one store in the balance of 2008/09
  - First South Australian stores to open pre June 2009
  - Increased focus on specialist fishing and tackle will be rolled out as a store within a store model
- Range Development
  - Continued development of national brand exclusives
  - Development of category specific own brands (Boss, Blueline, Wanderer and Detour) as well as generic BCF brand
  - Increasing commitment to local ranging
  - Extending the range (Water Sports, Trailer Camping)
  - Steady development of the Apparel offer
- Brand Development
  - BCF Club Card now has over 250,000 members
  - Developing CRM solution to leverage this asset



## ***Developing the Goldcross business***

- Business Plan – Phase 1
  - Build a network of 20 stores across Melbourne and South East Queensland
  - Review and refine business operations to develop a profitable business model
  - Key challenge is to drive sales per square metre
- Range Development
  - Strong support from supply partners
  - Credible brand offer across all categories
  - Full range in store in March 09
  - Developing own brand ranges
- Brand Development
  - Infrequent customer store visit are a challenge to building brand awareness
  - Testing different marketing mechanics
  - Building relationships with community events to encourage cycling participation
- Store Development
  - Staged refurbishment program of 11 existing stores to capture learnings and manage ROI
  - New stores dependent on property opportunities – potential for 4 new stores in South East Queensland of which one will be opened in 2<sup>nd</sup> half
  - Testing different size stores, 600m2, 800m2, 1000m2
- Systems Development.
  - Switch over to Group POS and SAP systems in April/May



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

- Continuing focus on cost of doing business through Group Logistics
  - Goal is to reduce Logistics costs as a % of sales by 1.0% pt between FY05 and FY10
  - DC Network development increased Group Logistics costs by 0.5% pts in FY08 – offsetting gains delivered in FY06 and FY07
  - On track to reduce costs by 0.5% pts in FY09
- Developing Distribution Centre network to support planned growth
  - DC network supports planned growth to 2011. During the 1<sup>st</sup> half FY09:

Average Space utilised	51,940m <sup>2</sup>
Sub leased to 3 <sup>rd</sup> party	15,000m <sup>2</sup>
Average Space available	21,560m <sup>2</sup>
Total space	88,500m <sup>2</sup>
- Developing supply chain methods and systems
  - Inventory Optimisation initiative across SCA and BCF
  - Port splitting logistics solution implemented for circa 1,400 import lines
  - Trialling E Commerce solution with 6 suppliers
  - Ongoing Master Data Management system implementation
- Overseas sourcing team
  - Direct importing continuing to build : In January 09, SCA at 23% and BCF at 15% of total imports – target 50%
  - Extending sourcing beyond China

## ***Developing our People***

- Continuing Investment in People
  - As forecast, people costs are increasing as a % of sales
  - Improved customer service will drive customer loyalty => marketing spend reducing as a % of sales
- Team Member Development
  - Year 3 of the Business Leadership Academy rollout
  - Customer Service Development initiative
- Team Member Attraction and Retention
  - Team member turnover has reduced by close to 8% points over the last two and a half years
  - Team Member satisfaction score at 75.5%
  - New enterprise agreement to be negotiated for implementation in June 2009
- HR Information Systems
  - Upgrade to current systems to improve management information and reduce administration
  - Labour management system fully implemented – driving productivity benefits
- Corporate Social Responsibility
  - Team Member health and wellbeing initiatives
  - Support for Children's Healthcare charities
  - Safe driving initiative in Supercheap Auto
  - BCF supporting SES
  - 6 Environmental initiatives underway





# Super Cheap Auto Group

Looking Forward



## ***Looking Forward***

### **Supercheap Auto**

- Expect to open one to two new stores and refurbish 5 stores during 2<sup>nd</sup> half
- LFL sales growth in the first 7 weeks of 2<sup>nd</sup> half above 5.0%
- Expect to maintain small increment in EBIT margins

### **BCF**

- Expect to open three to five new stores
- LFL sales growth in the first 7 weeks of 2<sup>nd</sup> half above 10.0%
- Full year set-up costs forecast at between \$2.0m to \$3.0m
- Expect to deliver improvement in full year EBIT margins pre set up costs through sourcing, ranging and scale benefits

### **Goldcross**

- Expect to open one new store and refurbish one existing store in 2<sup>nd</sup> half
- Business development and store opening costs will total around \$2.0m in FY09
- FY09 EBIT pre business development and store opening costs is estimated to break even

### **Cash Flow/Net Debt**

- Forecast to retain the net working capital benefit generated in the first half
- Planned full year capital expenditure circa \$35m
- Closing net debt to be approximately the same as H1 balance
- Net debt comfortably within facility limits of \$200m – core debt facility in place till April 2010





# Super Cheap Auto Group

## Half Year FY09 Results Presentation

