

# Super Cheap Auto Group

Results for the 52 weeks to 30 June 2007

Peter Birtles, Managing Director

Gary Carroll, Chief Financial Officer

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# ***Group Highlights***

## ***– 52 Weeks to 30 June 2007***



- 5 Group Strategic initiatives on track
  - Driving LFL sales growth in SCA
  - Expanding the SCA Network
  - Expanding the BCF Network
  - Developing Procurement and Supply Chain capabilities
  - Developing our people
- Earnings Per Share increasing by 35% over the prior year
- Both Supercheap Auto and BCF delivering strong growth in EBIT to contribute to an overall increase of 32% in Group EBIT compared to the prior year
- Group Sales increasing by 19% over the prior year as a result of stronger than expected like for like sales growth and a solid contribution from new stores
- Operating cash flow pre store set up costs increasing by \$15 million to \$60.9 million and as a result \$45 million investment in new and refurbished stores largely funded through operating cash flows

# Group Results

– 52 Weeks to 30 June 2007



- Strong profit performance driven by good sales growth and control of costs
- Sales growth across both brands achieved through new store and LFL sales growth
- 0.6% pts increase in EBIT margin due to improved fixed cost leverage
- Continued focus on working capital generating strong operating cash flows
- Net Debt increased by circa \$13m after \$45m investment in new/refurbished SCA stores and BCF growth
- Dividend increased to 10.5cps, representing 50% of reported earnings

	\$m	change on prior year
Sales	624.8	18.8%
EBITDA	51.3	29.6%
EBIT	38.1	31.7%
Earnings	22.3	35.3%
Operating Cash Flow	34.0	+\$7.2m
Net External Debt	93.5	+\$13.0m
Dividend	10.5c	+2.5c

# Supercheap Auto Results

## - 52 weeks to 30 June 2007



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- Strategic initiatives on track:
  - New stores
  - Refurbishment program
  - New marketing campaign
  - New product ranges
- 14.7% growth in EBIT
- Gross Margin reduced by 0.2% points reflecting:
  - Increased sales of mix of lower margin branded products such as navigation, lubes and performance
  - Offset by 0.2% pts reduction in logistics costs and further reductions in stock loss
- Operating costs reduced by 0.5% points:
  - Marketing costs have reduced despite increased catalogue activity
  - Occupancy Expense has remained flat as a % of sales, reflecting better LFL sales growth
  - Higher investment in team member costs offset by savings in other operating costs

	2007 \$m	% change on py
<b>Sales</b>		
- Total	525.7	9.1%
<b>Gross Margin %</b>	39.3%	(0.2)%pts
<b>EBITDA</b>	49.7	15.3%
<b>EBITDA Margin %</b>	9.4%	+0.5%pts
<b>EBIT</b>	37.9	14.7%
<b>EBIT Margin %</b>	7.2%	+0.3%pts

# Supercheap Auto Results

## - 52 weeks to 30 June 2007



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- Store opening schedule on track
  - 14 stores opened during the year
  - 4 stores relocated
  - 2 stores closed
  - 246 Stores at 30 June 2007 (208 in Australia and 38 in New Zealand)
- LFL growth strengthened through the year driven by strategic initiatives and promotional events
  - 2<sup>nd</sup> half LFL growth at 5%
- Market share gains achieved in all major categories with both total and LFL growth well ahead of the overall market, which remained relatively flat
- Stronger performance across Oils, Batteries, Car Audio/Visual and Performance.

	2007 \$m	% change on py
<b>Total Sales</b>		
- Total	525.7	9.1%
- LFL		4.1%
<b>Sales - Australia</b>		
- Total	466.5	8.8%
- LFL		3.9%
<b>Sales – New Zealand</b>		
- Total	59.2	11.5%
- LFL		5.4%

# BCF Results

## - 52 weeks to 30 June 2007



- Store Numbers:
  - 30 June 2007 - 31
  - Represented in Qld, NSW, WA and NT
- Sales growth was due to both new stores (18 were opened during the year) and 13.5% LFL growth
- All 3 major categories exceeded expectations with Fishing performing particularly strongly
- Gross margin grew by 4.9% pts during the year, due to improved trading terms and a growing range of exclusive products
- Increase in operating costs driven by higher rent costs
- Increased scale and gross margin improvements have resulted in EBIT margin improving by 3.8% points

	2007 \$m	2006 \$m
Sales	99.1	44.2
Gross margin	40.6%	35.7%
EBIT pre set up costs	6.6	1.3
EBIT margin (pre set-up costs)	6.7%	2.9%
Set-up costs	(4.8)	(4.8)
EBIT	1.8	(3.5)
Inventory Investment	37.2	17.2



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# Group Cash Flow

- Strong underlying cash flow performance driven by sales growth and focus on working capital management
- SCA new store growth and refurbishment activities, and BCF new store growth have been largely funded through operating cash flow
- New/Refurb Store Fit-out includes:
  - \$7.8m in SCA
  - \$10.3m in BCF
- Major expenditure in IT related to providing infrastructure to support company growth (\$1.8m) and SAP upgrade (\$1.1m)
- Increase in maintenance capex includes:
  - \$1.1m investment in sound boards in SCA stores

	2007	2006
	\$m	\$m
Operating cash flow (pre store set up)	60.9	45.9
New/refurb store set-up costs & working capital	(26.9)	(19.1)
<b>Operating cash flow</b>	<b>34.0</b>	<b>26.8</b>
Investing activities:		
- New/refurb store fitout	(18.1)	(9.8)
- Other capex		
-Maintenance	(4.4)	(3.4)
-IT & Supply Chain	(8.1)	(7.8)
- Other Investing Activities	0.2	0.2
Financing activities:		
- Dividends & interest	(15.9)	(11.9)
- Debt repay/proceeds	12.2	5.3
<b>Net cash flow</b>	<b>(0.1)</b>	<b>(0.6)</b>



# Group Balance Sheet

- SCA average inventory per store has remained flat despite the following:
  - Batteries previously held on consignment totalling approx \$3m (\$12k per store) have been included in stock in 2007
  - Investment in higher value items such as navigation equipment
- BCF average inventory investment per store of \$1.2m is \$0.1m below original projections
- Increase in Plant and Equipment as a result of capital expenditure of \$18.1m in new stores
- Increase in Net External Debt of \$13.0m, with operating cash flows being used to fund:
  - \$14.8m investment in new and refurbished SCA stores
  - \$30.2m investment in BCF business including fixtures, stock and set up costs
- Capitalised computer software now disclosed as an intangible asset

	2007	2006
	\$m	\$m

Inventory		
- SCA	122.7	117.8
- BCF	37.2	17.2
Total	159.9	135.0
(Trade creditors)	(62.2)	(49.4)
Net inventory investment	97.7	85.6

Plant and Equipment	67.3	49.8
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Net External Debt	93.5	80.5
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# Group Key Financial Ratios

- 35.5% growth in EPS as profit increase is funded by organic cash flows and debt
- Strengthening credit ratios and return on capital reflect focus on capital utilisation in addition to growth opportunities
- Debt to capital has increased slightly but remains well within covenanted levels

	2007	2006
EPS	21.0c	15.5c
EBIT Interest Cover	5.3x	5.0x
Debt/EBITDA	1.94x	2.19x
Fixed charge cover	1.94x	1.86x

- *Adjusted capital included leases capitalised into debt at 6x annual charge*
- *Fixed Charge cover ratio calculated on a cash basis*

	2007	2006
Net debt : capital		
- Headline	42.9%	41.7%
- Adjusted	74.0%	72.3%
Annualised ROC		
- Headline	14.0%	11.7%
- Adjusted	12.7%	11.7%

# 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*

- Store refurbishment initiative proving successful
  - Sales uplift in line with expectations
  - Refurbished/Relocated 18 stores during 2007
  - Plan to refurbish approximately 30 stores in 2007/08
- Customer offer development
  - Launch of SCA own brand
  - Range extensions
  - Rollout of Fitment services across all stores
  - New ranging initiatives to be launched at Bathurst
  - 33% drop in product disposals on a LFL basis compared to FY06
  - New website generating a 300% increase in traffic
- Customer service development
  - Focus on improving efficiency of store operations to increase time available to serve customers
  - Investment in additional team members in smaller stores
  - Investment in product knowledge and customer service training
  - Further opportunities to reduce out of stocks
- Refreshing marketing and promotional campaigns
  - Building events around each promotional catalogue
  - TV advertising presents a mix of brand building and sales driving activity
  - % off sales remain a part of the overall mix
  - Fathers Day, Bathurst, Christmas and Easter



# *Expansion of SCA Network*

- 245 stores trading today
  - 1 store closed this year
  - 2 stores open on 25 August
- Continued development of 4 discrete formats
  - Existing '700' format stores
  - '400' format stores – smaller regional and higher rental urban locations
  - '200' format stores – 2 store trial of shopping centre opportunities – decision on the format post Christmas 07
  - 'Superstore' – 1 store trial offering extended range and service offering
- Superstore trial
  - Existing Caboolture (QLD) store to be converted to a Superstore in mid September
- Expect to open 10 new stores and relocate 1 store in 2007/08
  - Mix of store formats
  - 2nd '200' format store at Westfield Hurstville opens on 25 August
- Multi format approach provides opportunity to open over 300 stores and achieve internal ROC hurdles



# *Expansion of BCF Network*

- 32 stores trading today
  - 20 in Qld, 6 in WA, 5 in NSW and 1 in NT
- Opened new store at Ipswich (QLD) in early July
- Plan to open between 10 to 15 new stores in 2007/08
  - Current property schedule indicates that new stores will be phased evenly through the year although management team will be aiming to open stores prior to Christmas
  - Secured stores are in NSW, WA, and QLD but the business will also consider opportunities across Southern Australia
  - Business will consider property development as an avenue to secure sites in certain locations – Burleigh store built by the business
- New stores will be in 2 formats:
  - 2,000m<sup>2</sup> with sales potential of \$5m to \$6m targeted towards larger coastal population centres
  - 1,200m<sup>2</sup> with sales potential of \$3m to \$4m targeted towards smaller regional population centres
- Range development to drive LFL sales
  - Opportunities for the business to extend range into Water Sports and Kayaks
  - Apparel presents an opportunity and will have a larger role in Southern stores
  - Another year's experience of the seasonality and locality of the business will assist in ranging decisions to drive sales
- Performance to date has demonstrated potential for over 60 stores

# Developing Procurement and Supply Chain Capabilities



- Continued focus on reducing product costs and logistics costs as a % of sales
  - Logistics costs as a % of sales have reduced by 0.4% pts over the last 2 years
  - Further underlying improvement anticipated in 2007/08
- Overseas sourcing office in Hangzhou opened in October 2006
  - Focus on product cost, quality, packaging and supply chain
  - Pipeline of opportunities growing in line with expectations
  - Existing suppliers and agents offering improved trading terms
- Ongoing development of Distribution Centre network
  - Larger NZ DC enables more direct shipping ex China
  - Expansion of Melbourne DC and conversion to company operated facility during 2007/08
  - Network provides opportunity for reduction in 3<sup>rd</sup> party costs and freight movements
- Developing supply chain methods
  - Successful SAP upgrade provides functionality to support more efficient supply chain processes
  - Development of port splitting capability to facilitate flow of product from China DC direct to store
  - Development of cross dock and flow through methodologies
  - Providing a DC to store model for BCF to complement the existing direct to store model

# Developing our People



- Our team members are the key to an increased sales and service focus
  - Development of customer service and selling skills
  - Development of product knowledge
  - Investment in team member numbers in smaller stores
- Greater focus on team retention
  - SCA Store Manager turnover has improved by over 10% but is still too high
- Ageing workforce will require the Group to adapt its people policies
  - Greater flexibility
  - Non monetary benefits
  - Current workforce heavily skewed towards younger team members
    - 17% of SCA retail team members are over the age of 26
    - 38% of BCF retail team members are over the age of 26
- Business Leadership Academy
  - In-house suite of learning and development programs
  - Providing learning opportunities for team members at all levels of the organisation
- Ongoing development of remuneration arrangements
  - Linking incentive arrangements to drivers of sales and store profit
- Operating cost profile will continue to change
  - People costs will grow ahead of sales
  - Marketing costs will grow below sales

# Super Cheap Auto Group

Outlook for Full Year 2007/08





# *Outlook for Full Year 2007/08*

## **Supercheap Auto**

- Plan to open approximately 10 new stores
- Expect the business to continue to gain market share => modest LFL growth.
  - LFL growth in early 07/08 is consistent with 06/07 trends
- Anticipate further improvement in underlying EBIT margins

## **BCF**

- Plan to open between 10 and 15 new stores
- Anticipate EBIT margins (pre set up costs) to be around 7%
- Set-up costs forecast at between \$2.5m and \$3.9m

## **Supply Chain**

- Anticipate further reduction in underlying logistics costs as a % of sales
- \$5m investment in new Melbourne DC of which circa \$1m will be expensed in the 07/08 year

## **Cash Flow and Net Debt**

- Working capital investment in new stores anticipated at \$20m
- Planned capital expenditure circa \$32m
- Net debt circa \$75m at June 08 – circa \$30m timing benefit due to year end date