

24 August 2010

ASX/Media Announcement

Super Cheap Auto Group announces 18.4% increase in full year net profit after tax

Super Cheap Auto Group (ASX:SUL) today announced an 18.4% increase in net profit after tax to \$38.1 million for the 53 weeks to 3 July 2010.

Highlights for the year included:

- 13.2% increase in Group sales
- 19.3% increase in underlying Group EBIT
- 13.7% increase in earnings per share
- \$35.9 million decrease in Group net debt
- \$32.9 million investment in new and refurbished Supercheap Auto and BCF Boating Camping Fishing stores
- The acquisition of Ray's Outdoors on 31 May 2010.

The 2009/10 financial year was a 53 week trading period for the Group. The extra week's trading generated an additional \$800,000 in net earnings.

Super Cheap Auto Group's Managing Director, Mr Peter Birtles, said the Group's financial results for the year were testament to its strong business model.

"During a tough period for Australasian retail businesses, Super Cheap Auto Group has delivered another record sales and profit result. This reflects our strong focus on delivering the right offer (centred on the right range at great value) to our target customers across the Group," Mr Birtles said.

"At the same time, we continue to improve our business operations. The progress we have made in category and supply chain management over the past few years has been a major driver of like for like sales growth, gross margin improvement and a reduction in working capital per store."

Auto and Cycle Retailing

The Auto and Cycle Retailing division consists of the Supercheap Auto and Goldcross Cycles businesses.

Sales increased by 9.9% to \$684.8 million, while EBIT at \$48.2 million was 13.5% higher than the prior comparative period.

Supercheap Auto

Like for likes sales grew by 5.0%, building on the very strong growth achieved in the prior comparative period. Like for like transaction numbers, average items per transaction and average item values all improved on the prior comparative period.

Major drivers of this positive result included new product introductions, further development of the SCA and Calibre own brand product ranges, effective marketing and promotion, in store execution, and improved in-stock presence.

Sales growth was strong in the Electrical, Interior, Tools and Storage, Carcare, and Lubricants categories. A market-wide decline in demand and retail prices for Car Audio/Visual, Navigation, and Performance products impacted sales for these categories.

Gross margin grew by a further 80 basis points over the prior comparative period, driven by improvements to trading terms, overseas sourcing benefits, own brand development, supply chain efficiencies and the higher Australian dollar through the second half of the period.

Eleven new Supercheap Auto stores were opened during 2009/10, bringing total store numbers to 267 at the end of June 2010. The business also refurbished 30 stores during the period, including two as superstores.

In September 2009, Supercheap Auto relaunched its Australian website. The majority of the business's product range are now available online and are supported by product information and instructional videos. The website was awarded the Number One *Hitwise* site for the Automotive Parts and Accessories category (July to December 2009) in May 2010.

Goldcross Cycles

Goldcross Cycles experienced a challenging period following a market-wide decline in sales for bicycles, parts and accessories.

Like for like sales in its 11 Melbourne stores were 10% lower than the prior comparative period, but this was countered by a 37% increase in like for like sales across its seven Queensland stores.

Price discounting was a regular feature of the bicycle retail market in 2009/10 as retailers, including Goldcross, looked to drive sales and clear aged stock. As a result, gross margins fell by just under 11% of sales when compared to the prior comparative period.

As a result of the business's performance, and as reported at the half year, the Directors reviewed the carrying value of the \$8.1 million of goodwill arising from the acquisition of Goldcross Cycles and recorded a write-down of \$2.0 million.

No new stores were opened during the period as the business completed a full review of its strategy. This review resulted in a revised business model that will enable the business to achieve its targeted return on capital from a lower sales base. The model for future stores will be between 400m² and 600m² with a reduced investment in space and stock compared to existing stores. The business plans to relocate eight of its current stores to smaller locations as opportunities arise.

Leisure Retailing

The acquisition of Ray's Outdoors on 31 May 2010 led to the formation of the Group's Leisure Retailing division consisting of the BCF Boating Camping Fishing and Ray's Outdoors businesses.

Divisional sales rose 23.2% over the prior comparative period, to \$253.2 million. EBIT at \$21.3 million was 30.2% higher.

BCF Boating Camping Fishing

BCF Boating Camping Fishing performed strongly through the period achieving like for like sales growth of 4.8% which built on the 12.5% delivered in the prior comparative period. Like for like transaction numbers and average item value were higher, while average items per transaction were lower than the prior comparative period.

Strong sales growth was achieved in New South Wales, Victoria, South Australia and the Australian Capital Territory. Sales performance in Northern and Central Queensland reflected the broader slow down in retail spending in those markets. Solid growth was delivered in all three of the business's major categories.

Key drivers of this result included localised ranging, targeted marketing, new product introductions, range extensions, and own brand development.

Gross margin grew by 130 basis points to 43.7%, benefitting from improvements in trading terms, overseas sourcing, own brand development, supply chain efficiencies and the stronger Australian dollar through the second half of the period.

BCF also focussed on improved inventory management and delivered a 5% reduction in inventory per store, while maintaining in-stock presence in-store at better than target levels.

Ten new stores were opened during the period bringing total store numbers to 69 at the end of June 2010. The Group considers there to be potential for 85 to 90 BCF stores across Australia.

Membership of the BCF club continued to grow with more than 450,000 active members at the end of June 2010. BCF also relaunched its website towards the end of the period, increasing its online sales functionality and informational and video content. Early response from BCF customers has been very encouraging.

Ray's Outdoors

Ray's Outdoors was part of the Group for just one month during the 2009/10 period, so made only a small contribution to the Group's results. The acquisition was completed on 31 May 2010 at a total net investment of \$53.2 million.

Ray's Outdoors provides the Group with a broader product offering for a wider range of consumers in the leisure retail segment, including in the areas of apparel and outdoor furniture.

The business is expected to contribute around \$7.5 million to Group EBIT in 2010/11 and provide a platform for \$2 million in annual synergies to be realised by 2011/12.

At the end of June 2010, Ray's Outdoors had 38 stores trading across Australia. The Group believes Ray's Outdoors has potential for around 75 stores across Australia and New Zealand.

Group Costs

Group Costs consist of \$1.8 million of Ray's Outdoors acquisition costs and \$1.9 million of ongoing public company and bad debt costs.

Group Logistics

As a result of the investment made in establishing a network of five distribution centres in the 2007/08 period, the Group has had sufficient capacity to absorb growth during the period, including the acquisition of Ray's Outdoors.

Group Logistics costs reduced by a further 0.1% of sales compared to the prior comparative period. This improvement in efficiency was delivered in conjunction with improvements in service performance to the Group in both the timeliness and accuracy of deliveries. This contributed to an improved stock position on shelf in store. Importantly the team also reduced both the number of injuries and the time lost to injuries.

Review of Financial Condition

Cash flow from operations was \$52.6 million, which was \$10.1 million below the prior period. The 2009/10 period included an extra month's payment of creditors, amounting to \$35 million, which fell into the 53rd week. Underlying cash flow performance continued to be very strong reflecting the ongoing improvements in net inventory to sales ratios in both Supercheap Auto and BCF.

Group capital expenditure was \$27.1 million, including \$7.8 million in new store fit-out, \$9.8 million in store refurbishment costs, \$4.5 million in information technology projects, and \$5.0 million in general capital projects.

The net investment in the acquisition of Ray's Outdoors was \$53.2 million. This was fully funded by the issue of \$87 million in new equity through the combination of an institutional placement and a share purchase plan. The additional capital raised is being held to fund the rollout of Ray's Outdoor's stores over the next five years.

At the end of the period Group net debt was \$78.8 million, \$35.9 million lower than the prior comparative period.

Towards the end of the period, the Group invited the Commonwealth Bank of Australia and HSBC to join ANZ in providing a club debt facility to the Group. The overall facility is \$190 million, with \$90 million in the form of a working capital facility reviewed on an annual basis, and \$100 million in the form a term debt facility that matures in June 2012. The Group operated comfortably within its debt facility covenants during the period.

The Group's finance costs benefited from the reversal of an unrealised mark-to-market loss of \$2.2 million relating to interest rate hedging arrangements recorded in 2008/09 in accordance with International Financial Accounting Standards.

Looking Forward

Mr. Birtles said Super Cheap Auto Group had a track record of success during times of challenging market conditions.

"While we expect the general outlook for retail trading to remain uncertain in the lead up to Christmas, we also expect that increasing confidence will start to drive retail spending in the second half of the coming year," Mr Birtles said.

“Over the past few years, our businesses have grown at a faster rate than the markets in which they operate and we expect this to continue in the coming years. Each of our businesses has a number of retail, product and marketing initiatives underway to drive sales and margin growth in the future.

“We continue to have a full store development agenda, so anticipate opening between 10 and 15 new stores in the Auto and Cycle Retailing division and around 20 stores in the Leisure Retailing division in the coming 12 months.

“We also expect to refurbish another 30 Supercheap Auto stores (including three as Superstores), close two Supercheap Auto stores, and relocate a number of Goldcross Cycles stores.

“We remain confident in the strength of our business model and we see continued growth opportunities for our businesses in the coming year,” Mr Birtles said.

ENDS

Further information:	Mr Peter Birtles	Mr Gary Carroll
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Peter Birtles and Gary Carroll will be presenting the results by teleconference today at 10.00 am (AEST). To listen to this presentation go to the Boardroom Radio website (brr.com.au)

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