



Managing Director's Presentation Annual General Meeting – 29 October 2008

Thank you Dick and Good Morning Ladies and Gentlemen.

I would like to review our performance during the year to June 2008 and then outline our plans for the current year.

Dick has covered our overall Group operating results so I will focus on the performance of our individual businesses and then summarise our funding position.

Firstly Supercheap Auto

Sales increased by 6.3% to \$558.8 million with like for like sales growth in our existing stores of 4.8%. This was the highest level of like for like growth recorded for some five years and was particularly pleasing, given the robust like for like growth of 4.1% generated in the prior comparative period.

EBIT at \$41.5 million was 9.8% higher than the prior comparative period. EBIT margins increased from 7.2% of sales to 7.4% through continued reduction in the cost of doing business.

Five new stores were opened during the year, one store was closed and two stores were relocated. 30 stores were refurbished during the year and the Caboolture store was refurbished and reformatted as a Superstore. At the end of June, there were 250 stores trading across Australia and New Zealand.

We have continued to focus our product range selection around national brands along with our three tier own brand strategy under our Best Buy, SCA and Calibre own brands. New products are a key part of our offer to our customers and over the last 12 months over 25% of our products were renewed.

We have supplemented our product offering with service offerings such as car insurance, a trade customer offer and product fitment. By June 2008, we were fitting over 1,000 products per week.

Finally, the Australian Retail Association awarded Supercheap Auto Best Retailer of the Year award for 2008. This award and the performance of the business are worthy recognition of the direction and leadership that David Ajala and his team have provided for Supercheap Auto over the last two and a half years.

BCF - Boating Camping Fishing

Sales at \$156.4 million were 58% higher than the prior comparative period. Like for like growth from stores trading for more than 12 months was 5.7%.

EBIT at \$7.9 million was \$6.1 million higher than the prior comparative period. Underlying EBIT margins pre new store set up costs have increased from 6.7% to 7.6%.

At the end of June, BCF had 49 stores trading across Queensland, New South Wales, Victoria, Western Australia and the Northern Territory. 17 new BCF stores were opened during the year including two stores acquired from JV Marine in Melbourne. Nine of these new stores are in the smaller 1,200m² store format in regional towns around Australia.

A smaller specialist Fishing and Tackle store trading as Campbell's ProTackle in Perth was acquired in December and continues to trade under the Campbell's name. This acquisition has provided the opportunity for BCF to gain a deeper understanding of the more specialist end of the Fishing and Tackle market and the opportunity that exists to extend our offer into more specialist products.

BCF is still a very young business and although the business has performed very well we recognise that there remains an opportunity to better tailor the offer to local market demand. We are looking to build our business in Victoria and to launch the business in South Australia in the next 12 months.

I would like to acknowledge and thank Steve Doyle and his team for their ongoing passion and commitment towards developing the BCF business. 2008/09 is shaping up to be another year of significant growth for BCF with both new stores and new product development opportunities.

Group Logistics

2007/08 has been a year of significant investment in building a logistics infrastructure to support the future growth of the company. At the start of the year we had a network of three distribution centres in Brisbane, Perth and Auckland and we also utilised a number of third party facilities in Brisbane, Perth and Melbourne. During the year we have established new distribution centres in Melbourne and Brisbane and relocated our Perth distribution centre. As a result, we have been able to exit all third party facilities.

The new network provides us with approximately 88,000 square metres of warehousing space of which we are currently utilising 53,000. As a result we are currently sub-letting 15,000 square metres of our new Melbourne facility to a third party until we need it. The new network will allow us to increase the efficiency of both our domestic and international freight operations leading to lower unit costs.

We invested around \$5 million in establishing the new network of which \$2 million was expensed as part of operating costs and \$3 million of distribution centre fit-out was capitalised.

Net Debt

We have continued to utilise debt facilities to fund the investment in the growth of the Group. During the year we renegotiated our debt facilities with our banker, ANZ, who, despite the wider turmoil in the credit markets, were willing to reinforce their support for our business. We have increased our debt facilities to an overall limit of \$200 million with only a minor increase in costs. \$80 million of the facilities are in the form of a working capital funding facility which is reviewed on an annual basis. \$120 million is in the form of a term debt facility which matures in April 2010.

Net external debt for the Group increased from \$93.5 million to \$117.8 million but sits comfortably within our banking covenants and our overall facility limit of \$200 million.

I will now outline our plans for the current year.

Our strategic agenda has 5 elements:

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

I will talk to these in turn:

Driving sales and margin growth in Supercheap Auto

We continue to believe that Supercheap Auto has the potential for 300 stores across Australia and New Zealand. We plan to open eight new stores in the coming year – by this weekend we will have opened two stores.

We will also continue with our program of refurbishing some of our older stores and will invest around \$5m in refurbishing 30 stores during the year.

We will maintain our focus on new product introduction and own brand development which are drivers of both like for like sales growth and gross margin improvement.

Despite the broader downturn in wider retail spending, Supercheap Auto has had a pleasing start to the year with like for like sales growth in the 17 weeks to the 25th October of 4.4% in Australia and 3.3% in New Zealand.

Driving sales and margin growth in BCF

BCF's growth will continue to be driven principally through new store openings albeit at a slower rate than in the previous two years. We expect to open ten stores during the year of which four, including the acquisition of the Jurkiewicz Adventure store in Canberra, have already been opened.

We will continue to tailor our product offering in our stores to local demand and we will be launching a series own brand ranges in BCF in the next few months. We have been successful in building the membership of the BCF Club which now stands at over 200,000 active members across Australia. The club provides the opportunity for direct marketing campaigns.

BCF has also started the year well with like for like sales growth of 4.4% in the 17 weeks to the 25th October.

Developing the Goldcross business

On 23 June 2008, we completed the acquisition of Goldcross Cycles, an 11 store network of bicycle stores all based in suburban Melbourne. At the same time we acquired a 50 per cent interest in Oceania Bicycles, an importer and distributor of bicycles and bicycle parts and accessories.

We have been looking at opportunities in the bicycle retail market for some time. The market has grown significantly over the last few years and we believe that a number of factors, including public policy, environmental concerns and demographic changes will continue to drive growth over the coming years.

The bicycle retail market is highly fragmented and we see an opportunity to develop a market leading category killer business. Over the next few years, we plan to grow Goldcross to a chain of around 50 stores across Australia.

We will relaunch the business prior to the Christmas 08 sales period with at least three new stores in the South East Queensland market.

We will be investing in establishing the Goldcross business in the 2008/09 year and Goldcross will report a negative EBIT contribution of around \$2 million reflecting store set up and brand development costs.

Developing our Procurement and Supply Chain Capabilities

Following the significant development of our Logistics infrastructure during 2007/08, we expect to be able to drive a number of supply chain efficiencies over the coming years. These include the increased use of alternative trans shipment processes through our distribution centres such as cross-dock and flow-thru and the development of Ecommerce arrangements with our major supply partners.

We will also continue to build our direct importing through our overseas sourcing team who are based in Hangzhou in China. We have begun to extend our sourcing into India and will look at other emerging markets.

Developing our People

At the end of June, total Team Member numbers had grown to just a tick over 4,600. We see that our ability as an organisation to continue to motivate and retain our team members will be critical to our growth plans.

Over the last two years, we have increased our investment in the development of our people and we are pleased that in a very competitive labour market, we have been able to reduce the level of team member turnover across our Group. Moving forward, we will be doing more work on our team member development programs but also enhancing our team member engagement and remuneration and reward arrangements.

We are also very pleased that our focus on a safe working environment is delivering results. For the second year in a row, despite the significant increase in the number of team members working in our business, we have been able to reduce both the number of lost time injuries and the hours lost to injury.

Before closing, I would like to refer to the work that we are doing in the area of Corporate Social Responsibility

On the social side, the Group is supporting a number of children's healthcare charities through the sale of promotional product in store, change collection and fundraising events. Over the last three years, in excess of \$2 million has been raised for these charities.

The Group is a founding partner of the Queensland Leaders Group, an organisation established to assist in the development and mentoring of smaller Queensland based companies.

Supercheap Auto has begun promoting the importance of safe driving. In partnership with Channel 7 and Russell Ingall, the business has developed a series of TV advertisements and the message will also be featured in promotional catalogues. The business has developed a safe driving program in partnership with the Holden Performance Driving Centre which is available through the store network at no profit.

On the environmental side, the Group has established programs to reduce consumption of paper, packaging and power. The Group is working to more accurately target catalogue distribution to reduce the number of catalogues issued. The Group is also developing a program to enable customers to return car batteries for recycling and is considering similar programs for paint and

oil. The Group will be exploring opportunities to replace customer plastic bags with biodegradable bags in the coming year. The Group is also a signatory to the National Packaging Covenant.

In closing, I would like to acknowledge our management teams and our wider group of team members who have worked very hard on both our every day business and our strategic initiatives. On behalf of my fellow shareholders I would like to thank all of our team members for their contribution.

We have a full agenda of interesting and challenging initiatives to grow and develop our businesses in the 2008/09 year and I look forward to reporting on our progress to you during the year.

Peter Birtles
Managing Director
Super Cheap Auto Group Limited