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# EDITED TRANSCRIPT

BAP.AX - Half Year 2018 Bapcor Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Darryl G. Abotomey** *Bapcor Limited - MD, CEO & Director*

**Gregory Lennox Fox** *Bapcor Limited - CFO & Company Secretary*

## PRESENTATION

**Operator**

Greetings, ladies and gentlemen, and welcome to the Bapcor First Half 2018 Results Conference Call. My name is Sheena, and I will be your operator for today. (Operator Instructions)

I would now turn the conference over to Darryl Abotomey, CEO and Managing Director. Please proceed.

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**Darryl G. Abotomey** - *Bapcor Limited - MD, CEO & Director*

Thank you, Sheena. Good morning, everyone, and thank you for joining us for Bapcor's 6 months to December 2017 results presentation. Greg Fox, Bapcor's CFO, and myself will go through our results presentation and then take questions at the end. The ASX announcement for financial statements in this presentation were lodged with the ASX and are also available in the Investors section of the Bapcor website.

So firstly, I'd like to thank and acknowledge the contribution of Bapcor's talented and dedicated team of almost 4,000 people, who deliver such outstanding results, supported by our franchisees, customers and suppliers. Thank you all for your ongoing support.

So let's get right into another set of record-breaking results, starting on Page 5 of the presentation. So our headline results are from continuing operation, revenue is up 42% to $616 million, net profit after tax is up 45% to $40.4 million, and earnings per share is up 36%. So we've got strong results underpinned by the Hellaby acquisition and continued good performance of the business segments. Our trade, Bapcor New Zealand, formerly Hellaby Auto, and Specialist Wholesale segments are growing strongly, and the retail profit is stable in a challenging environment and during our transitioning strategy.

So our operating highlights on Page 6 that 2018 is a year of -- which is focused on consolidation following a solid expansion phase. Bapcor New Zealand continues to exceed its business case expectations, and integration is on track. Our Burson Trade and Specialist Wholesale businesses delivered strong growth. Our optimization savings program is progressing extremely well, and our noncore divestment proceeds are on target to reach NZD 92 million.

So on Page 7, we've got our financial highlights and every one of them shows solid growth, with revenue up almost 42%, an increase in gross margin; earnings before interest, tax and depreciation and amortization on a pro forma basis, up 43%; net profit after tax, up 45%; and earnings per share, up 36%. Our dividend -- the board's also declared that the dividend will increase by 27% to a $0.07 per share dividend payment. So these results are a continuation of our strong track record over the last 5 years in every measure.



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So you see that on Page 8, and it shows our revenue increases, our earnings per share, our net profit after tax and our dividends per share. So it's just -- it is a continuation of a strong track record and one that we expect to continue to deliver over the coming years.

So then looking at our business segments. All have delivered well, and I won't go through the details here that are showing on Page 9 because we'll cover each segment separately. But the results -- underlying results are driven by the Burson Trade's continued excellent performance, a very good result in Specialist Wholesale, solid results in Retail & Service, and as I mentioned earlier, a very good result in Bapcor New Zealand business.

So -- and to put it in overall context, which is on Page 10, trade and wholesale now account for more than 80% of our sales and earnings. So the focus of our business quite squarely and clearly is on trade and wholesale but also with a reasonably solid cut of retail as well.

So now we'll look at each business segment, and we'll start with Burson on Page 11. And it is another strong result driven by same-store sales of 3.4%, an increase in EBITDA and percentage and also an increase in the gross margin. So you see the trends of that business has achieved over the recent years on Page 11, and the highlights are showing on Page 12.

Page 12 shows revenue up 6.6%; and earnings before interest, tax, depreciation and amortization, up 8.7%. As I mentioned, same-store sales growth, 3.4%; and we added 3 new stores in the first half. So there are now 163 Burson stores on the way to the at least 200 stores in that business segment. Margin grew by 3 percentage points compared to the prior period. And we did have a selling price increase in January this year, and that is holding in the marketplace. There are also significant work streams in this business underway to increase our own brand ratio, which has always been part of our long-term targets, and that's starting to flow through quite solidly now.

Turning to our Specialist Wholesale businesses on Page 13, where we show an excellent performance from the wholesale businesses. And this is the wholesale businesses excluding those that came with the Hellaby acquisition. So here, you see revenue up 25% as well as earnings up at that level. So we did have the benefit of some acquisitions, like Roadsafe, Baxters and MTQ, and all those businesses have performed well. However, our like-for-like sales growth in the -- excluding the acquisitions were up 5%; and our earnings from those businesses, excluding acquisitions, were also up 15%. So it's not just the new businesses driving it. It is also the existing businesses. So we had improved gross margin through the internal business unit controls and supply negotiations and also the benefits of intercompany sales. We've got a large pipeline of projects on that intercompany sales area, which is ranged product substitution. And that's how we drive our own brand products, and we will further drive profitability. So -- and then also, from the 6 months, the former Specialist Wholesale businesses in Australia that were part of Hellaby will come under this segment. They're not in the results that we show here, but they will come under it from January this year onwards.

Then turning to the Bapcor New Zealand business, which was the former Hellaby Auto business. You've got 2 parts to that business, the New Zealand business, New Zealand trade, and also the Australian wholesale. So both of those segments have performed extremely well with significant revenue and EBITDA growth compared to the Hellaby recorded prior corresponding period. So the figures we're showing here on the H1 FY '17 relate to what Hellaby reported for the equivalent period, just so you can see how the business is performing. And it certainly is exceeding Bapcor's business case when we made the acquisition. Trade in New Zealand, this is the BNT part of the trade. Same-store sales were up 8.5%. So it's driven by a strong market in New Zealand, along with range expansion and some organizational changes and focus. That business has got considerable upside as we continue to develop it and as we grow the network with the strategy that we've got in adding stores, refurbishing and relocating stores, increasing product range and adding additional things such as -- it's now a Capricorn-approved supplier, which it hadn't been previously. So that will start to drive that business as well in additional sales and make it much more competitive in the market as well. And we've got procurement savings that we have actually achieved already in the first half that they really start to deliver in the second half and beyond. So as I mentioned, the strategic plan is network expansion. And we've also started to do key sales and leadership training, which has been deployed at the moment. Now as I mentioned before, the segment that shows here is the Australian wholesale business has become part of our Bapcor's wholesale business segment for the next reporting period.

Turning to Retail & Service. Retail & Service delivered a solid result in a very competitive environment and throughout our transitioning phase to increase the number of company stores and increase the Autobarn network overall. So the growth in Autobarn company stores drove the revenue growth here of 5.4%. So the company stores in Autobarn had a 5% same-store sales growth. So they're showing that the strategy to increase the number of company stores is delivering benefits. But the offset to that on the properties in the first couple of years, it's negative to profit for the stores. But as you transition through and keep adding stores, that will start to deliver in the medium term. So we did have 4 new greenfield stores



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and 4 franchise conversions during the period, and now those 31% of Autobarn stores are company-owned. There is a strong product development pipeline, including own brand products. And the service business is showing good growth with same-store sales up 4.3%.

Turning to the former Hellaby noncore assets. As you're probably aware, we have divested Footwear and Contract Resources, are in -- for part of the period in the result in the noncore assets results. And TBS business, we're in process at the moment on that divestment and it's underway. TBS is performing extremely well as a business, and it's a New-Zealand-based maintenance services business and it is a very good solid business. So it's -- but we are proceeding, and we still expect net proceeds from the divestments of these noncore assets to reach our target of NZD 92 million when we complete the divestments, which we expect to happen during the 6-month period.

So now I'll pass it to Greg Fox, Bapcor's CFO, to go through some of the results in detail.

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**Gregory Lennox Fox** - *Bapcor Limited - CFO & Company Secretary*

Thanks, Darryl. It's been another period of growth at Bapcor, with the results flowing through as anticipated. The headline results include all of Bapcor automotive businesses with the noncore businesses of Footwear and Resource Services treated as discontinued operations. The result is clean and no pro forma adjustments in the first half of financial year '18, with only the prior year comparatives containing pro forma adjustments specifically relating to the Hellaby acquisition transaction costs.

Revenue was up 41.6%, with all business segments contributing to the growth. Trade was up 6.6% in a relatively low period of store expansion that will accelerate in the second half. Retail & Service revenue growth grew by 5.4% with the increase in number of company-owned stores contributing to this growth. And Specialist Wholesale revenue grew by 25% largely due to acquisitions made during the course of financial year '17. Bapcor New Zealand contributed approximately 80% of Bapcor's total revenue growth during the period.

Gross margin was up 0.6 percentage points with all business segments growing margin except for retail, which is impacted by the higher ratio of company-owned stores versus franchisers as franchise royalty revenues flow straight through the profit and these royalty revenues are replaced by the recording of end network sales when the company owned it. The growth in gross margin across the business reflects the continued focus of the business from growing margin and also reflects the beginnings of the forecast optimization benefits flowing into the business.

Cost of doing business as a percentage of sales was up 0.5 percentage points, reflecting the higher ratio of cost of doing business in Bapcor New Zealand and retail company-owned stores.

Finance costs in the first half of financial '18 are based on the funding level of the continuing operations and have increased due to the releveraging of Bapcor as part of the Hellaby acquisition.

Pro forma net profit after tax from continuing operations is $40.4 million, up 45.2%. The net profit after tax of $40.4 million represents 47% of our previously stated full year prior guidance. The half year split is consistent with our expectations as the second half of the year will include the benefits of additional optimization savings, further maturing stores and network expansion.

Looking now at the cash flow on Page 19. We can see that Bapcor has, again, had strong cash conversion for an expanding business at 98.2%. Working capital in absolute dollar terms is flat, and working capital as a percentage of sales decreased by 2.6% with improvements across each of the inventory, debtors and creditor metrics. The full proceeds from divestments, Bapcor's cash generation was neutral after investing $8.8 million in store network expansion, $7.8 million in business acquisitions, $7.6 million in CapEx and paying dividends of $16 million. Proceeds from divestments during the period were $54 million.

And looking at the balance sheet on Page 20. Net debt at 31 December was $337 million, representing a leverage ratio of 2.2x. Net debt is on target to be sub-2x leverage by 30 June 2018, on the divestment for the remaining noncore business, TBS, which has been classified on the balance sheet as held for sale. The directors have declared a dividend of $0.07 per share, representing a 27% increase over the previous interim dividend. The record date for the dividend is 16 March 2018, and the dividend reinvestment plan will remain in place.



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Back to you, Darryl.

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**Darryl G. Abotomey** - *Bapcor Limited - MD, CEO & Director*

Thanks, Greg. We had a bet on how long it will take, Greg. So a brief update on Bapcor's strategy, so on Page 22, that we still have a solid growth runway ahead of us with specific targets and objectives. On this chart, on Page 22, the white boxes show where we're at today compared to our 5-year targets. On some of the boxes, you'll see that we haven't got the targets, and it's simply because we're still developing the strategy for those. But for trade, for Specialist Wholesale, for Retail & Service, in most cases, there are specific targets and strategies, and there is a very strong runway ahead of us. It's not a 1-year or a 2-year; it's a 5-year plan.

Page 23 shows our optimization programs that we have underway. And we're progressing very well on these, and we expect to deliver at least at the top end of the range. So we're seeing some very good results out of our optimization programs. And over the next year or so, we expect to be well and truly at the top end of that range. Our warehouse evolution program is progressing well and is underway, with solid benefits being achieved in freight and also good progress on the warehouse management system and the DC design. We're on track for the original schedule for the warehouse evolution project. Then it is a 3- to 4-year project, and we expect to see the benefits in that time frame.

On Page 25, Bapcor's outlook is for continued organic, geographic and other strategic growth opportunities with store and branch footprint expansion in all our segments. We're well placed in the electrical and electronics componentry business for the evolving carparc. Our first Asian store is targeted to open by May, and we expect to have at least 5 stores in Asia in 2018 in the calendar year. We've got continued margin growth through our growth in own brands, in volume and through our warehouse evolution project. We've got strong free cash flow and a solid balance sheet. And we're reiterating that we are on target for a 30% growth in net profit after tax in 2018.

So overall, not only has Bapcor achieved another record period, but we are also reiterating our confidence in the current year and also in the industry and our longer-term outlook. Again, thank you to all our staff, franchisees, customers and suppliers who make Bapcor such a great company.

So now turning on Page 26, you'll see our new Asian mascots.

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**Operator**

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a wonderful day.

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