

## **SLIDE 1 – 2CC 2023 ANNUAL SHAREHOLDERS’ MEETING**

### **Michael Stiasny**

Mōrena, good morning. My name is Michael Stiasny, Chairman of 2 Cheap Cars Group Limited. As it’s now 10.00am, I am pleased to open the 2 Cheap Cars Annual Shareholders’ Meeting.

## **SLIDE 2 – BOARD AND MANAGEMENT**

On behalf of my fellow directors, welcome to all of you.

With me this morning are Executive Director and CEO David Sena, Director Gordon Shaw, and our Chief Financial Officer Angus Guerin. Our lawyers from Minter Ellison Rudd Watts and our Auditors, UHY Haines Norton are also present online.

As we outlined in the Notice of Meeting, the Board acknowledges there are advantages to holding in person shareholder meetings. However, the associated costs are increasingly prohibitive and do not, in our opinion, deliver value to all shareholders. Hence our decision to hold this meeting online.

We appreciate your understanding and are pleased to see shareholders from around New Zealand joining us.

A few housekeeping matters:

- We ask that you follow the information provided in the Notice of Meeting regarding voting and asking questions.
- Should you require any assistance, you can type your query and one of the Computershare team will assist, or alternatively, you can call Computershare on 09 488 7800.

## **SLIDE 3 – QUESTIONS**

Please note that only shareholders and proxies can ask questions and submit votes. You can submit questions via Computershare at any time during the meeting.

If you have a question, click the Q&A tab on the right half of your screen. Type your question into the field and press send. Your question will be submitted immediately. Specific questions on any of the resolutions to be considered will be answered as the relevant resolution is put forward, while general questions will be addressed later in the meeting.

Questions may be moderated, or if we receive multiple questions on a topic, they may be amalgamated. If we run out of time to answer all questions during this meeting, we will answer them directly via email and post the responses on our website.

To any media present online, please get in touch with Gus after the meeting if you have questions.

## **SLIDE 4 – VOTING PROCESS**

Voting today will be by way of a poll on all items of business. To provide you with plenty of time, I will shortly open voting for all resolutions.

If you are eligible to vote at this meeting, you will be able to cast your vote under the Vote tab. To vote, simply select your voting direction from the options shown on screen. You can vote for all resolutions together, at once, or for individual resolutions. When the tick appears, your vote has been cast. To change your vote after that time, simply select 'Change Your Vote'. You can do this until I declare voting closed.

I now declare voting open on all items of business. The resolutions will be open in the vote tab, you may submit your votes at any time, and I will let you know in advance that voting will be closing.

## **SLIDE 5 – AGENDA**

Here is today's meeting agenda.

Gus will provide a quick overview of last year's performance, the progress we've made in recent months and how the business is responding to tough trading conditions.

While David has overseen the operational and strategic content, he has asked Gus to speak on his behalf to ensure the information is easily understood.

Following these presentations, we will then move to the formal resolutions set out in the Notice of Meeting, followed by general business and questions.

Let's now move on to the formal part of the meeting.

### **Apologies**

Are there any apologies?

*(If not:)* Thank you.

*(If yes:)* Thank you, I will ask the Secretary to record those in the minutes.

### **Quorum**

The Company's constitution prescribes a quorum requirement of five shareholders present in person, or by representative participating by audio, audio and visual or electronic means. As confirmed by Computershare, this requirement has been met.

### **Proxies**

20 shareholders, holding a total of 38,731,923 shares, have appointed proxies. The appointed proxies represent 85.02% of all shares.

In my capacity as Chairman of the meeting and in my own name I hold proxies for 13 shareholders, representing 3,934,495 shares, or 8.64% of all shares.

I intend to vote all undirected proxies I have received in favour of resolutions 1 and 2.

### **Annual Report and Notice of Meeting**

The annual report was made available on 2 Cheap Cars' website on the 27<sup>th</sup> of June 2024. The Notice of Meeting was uploaded to the NZX and sent to shareholders and other persons entitled to receive it on 29<sup>th</sup> August 2024.

I propose that we take the Annual Report and Notice of Meeting as read.

## **SLIDE 6 – CHAIRMAN’S ADDRESS**

### **Michael Stiasny**

As I remarked at last year’s ASM, this is a no-frills business and one that is in tune with the times as New Zealand experiences a prolonged and deep economic downturn.

In FY24, 2 Cheap Cars delivered on its promise to return to its successful, profitable pre-listing roots by stripping out unnecessary cost, leveraging its supply chain dominance and expanding gross margin. Our results were unprecedented, proving the worth of a simple strategy, executed with focus and precision.

The fundamentals – and a culture of continuous improvement – are now strongly embedded. The business is increasingly agile: we can, we do, and we will continue to respond quickly to changes in trading conditions at a nationwide level and site-by-site.

As a result, 2 Cheap Cars remains well positioned in the market.

However, there is no ignoring the fact that the cost-of-living crisis and high interest rates have had the greatest impact on those who have the least ... and that includes our customer base.

In tough times like these, very few businesses avoid some hurt and 2 Cheap Cars is no exception.

As our recent guidance noted, we no longer expect to match last year’s profit levels. While the business is trading well and overall sales volumes are largely stable, consumers are spending less and that impacts our margins.

In addition to the cost-of-living crisis, high interest rates have also affected our customers' ability to afford the financing they often rely on to make purchases. Consequently, we have seen an increase in declined applications.

We anticipate that interest rate cuts, further vertical integration benefits and our property expansion initiatives will boost business performance in the second half, but the market is likely to remain weak.

The Board anticipates a solid full year result and remains certain of our strategy and optimistic about the future. Gus will shortly take you through our business drivers and current market dynamics that provide insight and a clear rationale for that optimism.

Similarly, while it will take some time for the effect of August’s interest rates to improve consumer confidence, spending will inevitably increase ... and people still need cars ... 2 Cheap Cars has good ones at affordable prices.

With regard to dividends, the Board makes final decisions only once results are approved at the half and full year, in accordance with our dividend policy of paying 50% to 60% of NPAT and acting prudently based on information available at that time.

However, based on our current trading performance, we do anticipate paying a dividend, albeit less than in FY24. If there are any changes to that expectation, we will update the market.

Before Gus takes you through our FY24 results and updates, on behalf of the Board I'd like to thank the 2 Cheap Cars team for their hard work and dedication. Thanks to them, our business is performing well, despite the challenges.

## **SLIDE 7 – OPERATIONAL UPDATE**

### **Angus Guerin**

Thanks Michael.

It's a pleasure to be here today as CFO and to share David's presentation on the operational aspects of 2 Cheap Cars.

## **SLIDE 8 – FY24 SUMMARY**

FY24 was – by all measures – a terrific year for our Company with the turn-around strategy fully embedded.

The Company's full year revenue and income increased by 5% to \$86.8m.

Net profit after tax was \$6.2m up 383% from \$1.3m in FY23 while underlying NPAT, excluding the previous year's non-recurring costs, increased by 213% to a record \$6.2m in FY24.

FY24 also saw the welcome recommencement of dividend payments, with shareholders receiving a total gross dividend of 11.56 cents per share. Underlying earnings per share rose from 4.4 cents to 14 cents per share.

Net operating cash flow excluding lending was \$6.9m, down \$6.3m year on year, largely due to the strategic decision to maintain stronger inventory levels.

Gross margin notably improved on the back of operational efficiencies, optimised pricing and effective promotional activity, as well as improved finance penetration. The full year contribution margin increased 40% to \$20.7m.

## **SLIDE 9 – FOCUSED STRATEGY**

The 2 Cheap Cars strategy is simple. It's comprised of five distinct areas, all interconnected, and each playing a role in driving sustainable profit growth. And, all are subject to continuous improvement to ensure where gains can be made, they will be.

### **[Supply chain]**

While we already have a very efficient supply chain, we continue to refine it. Our focus is on achieving the greatest possible efficiencies from a logistics viewpoint, in order to benefit from the cost savings that accrue. In-housing, expanding and continually improving operations at our Hub remains a genuine competitive advantage.

Last year, we added Car Safety New Zealand to our group providing integrated in-house compliance. Over 60% of cars now receive their compliance certification at our Hub, removing the need to transit them to other facilities and to pay an external provider.

We've also nearly finished upgrading our panel and paint facilities at the Hub. Panel beating and painting are a significant part of the vehicle refurbishment process and costly to outsource. Once complete, over 80% of our panel and painting needs will be handled in-house.

Our Japan-based procurement team is a crucial part of our supply chain and really sets us apart from much of the competition. They ensure we have a consistent supply of quality, affordable vehicles.

We have partnered with more shipping companies to eliminate the impact of shipping constraints on our inventory levels.

Our singular objective is ensuring we get vehicles onto yards as quickly and cheaply as possible, to maximise margin and drive sales.

**[Retail footprint]**

Our approach to retail is to grow our footprint, but sensibly and over time. I will talk more about Auckland shortly as we have made some significant progress in this key market.

**[Gross margin]**

Profit, rather than market share, is what creates true value for shareholders. So, while we realise scale is important to a low-cost retailer and we have a sensible expansion plan, we will continue to prioritise gross margin.

The cost savings we make through our vertically integrated supply chain processes provides the margin; while ensuring we get pricing right and maintain strong finance and insurance penetration are key to holding onto it.

**[Customer experience]**

In retail, customer experience is everything. We have a great reputation and a strong social media following that we can leverage more, but ultimately, it's about our sales teams getting it right, every time.

**[Our people]**

We're making progress to ensure we have strong leaders, and that we can attract talented people. Health and safety is a priority, and our recruitment and training practices are focused on ensuring our team have the skills and support they need to succeed.

**SLIDE 10 – MARKET DYNAMICS**

There are three key drivers that impact our business. Cost of living, interest rates and immigration. It's fair to say that all three are currently making their mark in businesses across New Zealand.

Traditionally, higher cost of living increases the demand for affordable vehicles as consumers seek to manage their budgets more tightly. However, in a prolonged economic downturn as New Zealand is currently experiencing, low wage earners are disproportionately affected by inflation, high interest rates and cost of living increases.

In short, our potential customers have significantly decreased purchasing power and are under great financial strain, making even affordable car purchases difficult.

And in a high interest rate environment, low wage individuals find it harder to qualify for loans or may face higher borrowing costs, exacerbating their financial difficulties. As Michael said earlier, we have seen more finance applications declined in recent months.

Lower immigration rates can also reduce the number of potential new customers and impact finance penetration rates as new immigrants often need to finance a vehicle purchase. Last year, the country experienced significant immigration growth as regulations loosened following COVID 19-related restrictions.

Provisional data for mid-2024 shows that immigration rates are now falling, but they are coming off record highs and remain strong when compared with historical averages. The pace of immigration has reduced as New Zealand's high cost of living makes it a less attractive proposition. We have also noted regional differences as immigrants move to or from the regions to the cities to find stable employment.

Despite these challenges, 2 Cheap Cars continues to maintain solid sales and, importantly margin has not been sacrificed as much as it could have been in the circumstances.

Gross margin has been impacted by the need to lower car prices to maintain competitiveness. However, this effect has been partially offset by the strength of the New Zealand Dollar against the Japanese Yen, which has reduced vehicle acquisition costs. Enhancements in refurbishment efficiency have also helped.

As the recession has continued to bite, many dealers are importing fewer vehicles and there is currently a inventory deficit in the country as a whole. 2 Cheap Cars maintains strong inventory levels, and continues to trade well as a consequence.

And finally, the number of used car dealerships in New Zealand is also dropping as businesses go to the wall.

We expect dealer numbers to continue falling and scale – which 2 Cheap Cars has – is crucial for winning in this business.

To navigate these challenges, our focus remains firmly on optimising operational efficiency and prudent cost management to maintain profitability. Our agility is also a key factor: we have a granular understanding of evolving customer needs on a per-site level and this enables us to swiftly redistribute vehicles across locations to respond to specific demand.

### **SLIDE 11 – RETAIL FOOTPRINT**

2 Cheap Cars has 13 branches: 8 in Auckland and one each in Hamilton, Tauranga, Palmerston North, Wellington and Christchurch.

As I said earlier, our property strategy is based on conservative expansion – the right sites; the right scale; at the right time. We have always been clear that our sweet spot is largely in big urban centres. Last year we successfully doubled the size of our Christchurch yard, and sales volumes are up 56% year on year.

We will continue developing both mega and satellite sites depending on the scale of the geographic opportunity. Our rationale for this approach is that additional sites require very low overheads to run and given our business model, most new yards require minimal capital investment.

### **SLIDE 12 – FOOTPRINT EXPANSION**

Our plans for Auckland are now very well advanced.

In July, we opened a new 1,700m<sup>2</sup> site on Wairau Road on the North Shore which has already sold over 100 vehicles.

We are currently developing a new flagship site at 620 Great South Road in Greenlane. Aucklanders will know that location well ... it's 'car central'. Our site has brilliant street frontage and having a major yard there will not only be a game changer in terms of sales, but also significantly enhance our brand presence.

However, our most exciting development is a new mega Mt Wellington site that will open in 2025. The lease is signed, and resource consent is pending. This site will be 2 Cheap Cars largest yard, eventually accommodating over 150 vehicles.

### **SLIDE 13 – GREENLANE**

A closer look at Greenlane ... our existing Greenlane site which will close once the new site is open, has consistently delivered the highest vehicle margins in the Group. We have confidence the new site has even better potential. Therefore, it makes sense to invest in our brand by developing a site consistent with the more upscale environment, including digital signage on a road that sees daily average traffic of 21,000 vehicles.

As you can see, the planning is well underway with building consent granted to transform the existing building into a flagship for the brand. Once we receive resource consent, construction is planned to begin in October with the site open for business before the end of the year.

### **SLIDE 14 – MT WELLINGTON**

What makes the Mt Wellington site so important to 2 Cheap Cars is that it is strategically located directly in front of New Zealand's first IKEA store which is due to open in late 2025. The traffic that the IKEA store is expected to generate is unprecedented and most of it will drive past, and be exposed to, 2 Cheap Cars.

At close to 5000 square meters, 150 cars on yard and requiring minimal capital investment, this is a major step forward for us.

### **SLIDE 15 – BOTANY RELOCATION**

In August, we advised that due to major health and safety concerns, we were compelled to shut down our yard at Smales Road in East Tamaki. You can see in these photos how dangerous the site had become with a substantial landslide risk from a neighbouring property. We have now surrendered the lease as the site's safety could not be guaranteed.

Fortunately, we were able to swiftly secure a new site at Allens Rd in Botany which opened just 3 weeks after the forced closure and therefore the impact on trading was minimised as much as possible.

### **SLIDE 16 – FY25 UPDATE & FY25 OUTLOOK FY25 UPDATE**

In the five months to 31<sup>st</sup> of August, NPAT was \$1.5m - down \$0.9m vs the same period prior year.

While we have sold more cars, average retail prices are down 10 per cent which reflects the need to remain competitive in the current economic environment. Finance penetration rates have also been affected, down 4% due to strong competition and higher decline rates.

However, this impact has been partially offset by the strength of the New Zealand dollar against the Japanese Yen, which has decreased vehicle purchase costs, and improvements in refurbishment efficiency.

The net effect of these pressures has seen gross margin reduced by 3% on the previous year to 21%.

Year-on-year operational cashflow is down \$3.0m primarily driven by FY24 terminal and FY25 provision tax.

### **FY25 OUTLOOK**

Despite the headwinds we have experienced in the first five months of trading, 2CC is encouraged by several factors already in play that we anticipate will gain traction in the second half.

From an external perspective, the impact of interest rate cuts is expected to begin trickling through to our customers, alleviating some financial strain they face and improving their ability to secure finance. This should help support an eventual recovery in demand, reduce pricing pressures, and improve finance penetration rates.

Within the business, our ongoing focus on enhancing operational efficiencies and expanding in-house capabilities, along with our Auckland expansion plans, are expected to improve profitability.

We anticipate a trading uptick as the new Botany site becomes fully operational and the new Greenlane flagship opens. Additionally, the NZ dollar is expected to remain strong against the Japanese Yen. These factors, combined with expanding in-house compliance and panel and paint initiatives, will help contain vehicle costs and improve margins.

Affordable cars are a necessity, so while we anticipate weak market conditions persisting and immigration numbers to reduce, there are genuine reasons for optimism in the medium term.

I look forward to reporting on our progress later in the year when we deliver our half-year results. I'll now hand back to Michael. Thank you.

### **SLIDE 18 – RESOLUTIONS**

#### **Michael Stiasny**

Thanks Gus. I will briefly open the floor to questions specifically regarding the presentations, the Annual Report and Financial Statements only. We will take all **general** questions at the conclusion of the general business.

I remind you that this is a shareholders' meeting, and only shareholders and proxy holders may speak.



Thank you. We will now move to voting on the resolutions laid out in the Notice of Meeting.

### **SLIDE 18 – ORDINARY RESOLUTIONS**

Each resolution to be voted on, as outlined in the Notice of Meeting, is an Ordinary Resolution. This means it can be passed by a simple majority of eligible shareholder votes. As required by the NZX Listing Rules, the chairperson requires a poll on all resolutions. Therefore, votes on each resolution will be counted based on the number of shares each voting shareholder holds.

The resolution and voting options should now appear on your screen. Please make sure you have signed in with your CSN number to ensure your vote is valid.

To vote, simply select your voting direction from the options shown on the screen. You can vote for all resolutions at once or by individual resolution.

Please note that your vote has been cast when the green tick appears, and you can change your vote by selecting 'Change your Vote'.

Should you require any technical assistance, please type your query in the Q&A tab or chat function and one of the Computershare team will assist or call 09 488 7800.

All voting will remain anonymous. Votes will be collated by Computershare and the verified results will be announced to the NZX later today.

I now turn to resolution 1.

Section 207S of the Companies Act provides that the fees and expenses of the auditors are to be fixed in such manner as the company determines at the Annual Meeting. The Board proposes that, consistent with past practice, the auditor's fees be fixed by the directors.

I therefore move that resolution 1 is put to shareholders – that the Board be authorised to fix the auditor's remuneration.

Is there any discussion?

If shareholders could please cast their votes on resolution 1.

I now turn to resolution 2.

The next resolution concerns the re-election of David Sena as a Director of 2 Cheap Cars Limited. David retires by rotation and is also offering himself for re-election.

I now move that resolution 2 is put to shareholders – that David Sena be re-elected as a director of 2 Cheap Cars Limited.

I therefore move that resolution 2 is put to shareholders.

Is there any discussion?

If shareholders could please cast their votes on resolution 2.

If all shareholders have now voted, I declare that voting is closed.

**SLIDE 19 – PROXIES**

As at 10.00am Wednesday 25 September, Computershare advises that the following proxy votes had been received. With 85.02% of votes cast, and subject to verification by the scrutineers, both resolutions have passed.

Final verified results will be posted on the NZX later today.

Right, let's move on. The final item on our agenda is General Business:

**SLIDE 20 – GENERAL BUSINESS & QUESTIONS**

I will now ask Gus to read out questions we've received from shareholders.

The Board recognises that a limitation of an online meeting can be the difficulty shareholders may have in asking supplementary questions. If anyone believes they have not received a satisfactory answer to a question they asked here today, they are welcome to write to us, and we will respond.

**SLIDE 21 – THANK YOU FOR ATTENDING**

That brings us to the conclusion of our business today. We thank you for joining us and for your ongoing support of 2 Cheap Cars Limited. We wish you a great rest of your Friday and weekend ahead.

I declare the meeting closed. Thank you.