24 May 2024

Market announcement
NZX:2CC

FY24 results
Record profit and dividend declared

2 Cheap Cars Group Limited (NZX:2CC) has today reported a record $6.2m net profit after tax (NPAT) for the full year to 31 March 2024 (FY24), an increase of $4.9m over FY23.

Summary of key results
(Figures quoted are in NZ dollars. Comparisons are made against FY23.)

- **Revenue and income:** $86.8m, increased 5%[1].
- **Gross margin:** $20.3m up 39%.
- **Vehicle sales:** Down 2% to 8,169.
- **Underlying EBITDA[2] including finance income:** $11.4m, up 105%.
- **Net profit after tax (NPAT):** $6.2m, up $4.9m.
- **Underlying NPAT[2]:** $6.2m, up 213%.
- **Underlying earnings per share (EPS):** 14 cents per share (cps) vs 4.4 cps.
- **Final gross dividend:** 5.78 cps.
- **Total FY24 gross dividend:** 11.56 cps vs 0 cps.

The Company achieved full year revenue and income of $86.8m, an increase of 5%, driven by higher prices and improved finance and insurance (F&I) penetration rates which have offset slightly lower volumes for the full year.

2CC's gross margin expansion strategy has been extremely effective, strengthening 6% to 23% for the full year. This has been achieved through optimised pricing, effective promotional activity, improved finance and insurance penetration and the continued insourcing of compliance activities. The full year gross margin is up 39% to $20.3m.

Operating costs have risen marginally by 1% to $8.9m, significantly below the rate of inflation. Management continues to be strongly focused on both minimising cost increases and reducing reliance on third parties throughout the value chain.

The Company's focus on gross margin and tight control of operating costs has seen underlying EBITDA including finance income increase 105% to $11.4m in FY24.

Underlying NPAT, excluding last year's non-recurring costs, increased by 213% to a record $6.2m in FY24.

Interest costs, excluding those associated with leases, were down 52% on FY23, reflecting changes in finance facilities and prudent capital management.

Net operating cash inflow was $6.9, down $6.3m year on year, largely due to the strategic decision to maintain stronger inventory levels. The Company is well positioned with inventory valued at a healthy $13.9m, (up $5.5m over FY23 which was impacted by shipping constraints).

As at 31 March 2024, the Company is in compliance with all banking covenants and has cash of $4.7m, no net debt and total equity of $20.4m.

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[1] *Includes interest income derived from NZ Motor Finance.*
[2] *Excludes restructuring costs associated with board changes and other non-recurring consulting costs. Underlying EBITDA and underlying NPAT are non-IFRS measures.*

CEO Paul Millward says the full year result underscores the success of the Company's transformation strategy.

"Despite wider pressure on consumer retail spending, 2CC is in great shape. The Company's strong brand position is now well supported thanks to the work undertaken to ensure robust vehicle supply, attract capable people and a disciplined approach to revenue and cost management. And, the decision to focus on gross margin means the business is now on a stable footing with a clear growth strategy."

2 Cheap Cars

Despite priority being given to increasing gross margin, pleasingly 2 Cheap Cars also held its market share at 4.5%[3] for FY24.

2 Cheap Cars continues to be well positioned to meet the ongoing demand for electric and hybrid vehicles (EV/HEVs). Despite regulatory changes and removal of the clean car discount, the number of EV/HEVs sold as a proportion of total vehicle sales increased to 56%, up 14% on the year prior. Demand – particularly for cost effective HEVs – remains stable, accounting for 54% of total vehicle sales in the last quarter of FY24.

While the impact of the Credit Contracts and Consumer Finance Act saw a significant increase in the number of finance applicants declined, a penetration rate of 27.5% was achieved, and income increased by 11% to $4.9m.

Insurance penetration rates grew strongly to 37.1%, with insurance income up 9% to $2.6m.

Overall, the FY24 results reflect the successful implementation of 2 Cheap Cars' margin expansion strategy which is achieved by leveraging its reliable source of used cars from Japan and increasing prices where necessary to offset cost pressures. Utilising additional shipping providers to ensure consistent vehicle supply, undertaking and insourcing more compliance and operations activity has also had a positive impact.

NZ Motor Finance

NZ Motor Finance loan book remains in run down mode, reducing from $3.9m at 31 March 2023 to $1.8m at 31 March 2024 and making a profit of $0.05m for the year.

Dividend

Reflecting the positive FY24 results and strong cash position, the Board is pleased to declare a final gross dividend of 5.78 cents per share (cps), equal to the first half dividend and slightly above the stated dividend policy.

This brings the total gross dividends for FY24 to 11.56 cps, representing a yield of approximately 14.5% based on the share price of $0.80 as at 23 May 2024. The record date is 31 May 2024 and the dividend will be paid on 14 June 2024.

Outlook for FY25

2 Cheap Cars has a very clear value proposition and strategy that continues to successfully meet market conditions, as indicated by the strong FY24 results.

With the transformation now complete, the Company's focus remains on delivering gross margin over market share, continuous BAU improvement and profitable, sustainable growth through its property strategy.

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[3] *Source: Autofile – based on 2 Cheap Cars' vehicle sales as a proportion of dealer-to-public used cars sold between 1 April 2023 and 31 March 2024.*

The property strategy is a key growth factor for 2CC, with positive steps being taken to identify and develop new or better retail locations which benefit its scale model, particularly in Auckland.

Assuming favourable supply, currency and trading conditions, NPAT is expected to grow in FY25 by focusing on gross margin expansion, prudent cost management, increasing direct control of the value chain and sensible expansion in Auckland.

2 Cheap Cars Chair, Michael Stiassny said the FY25 outlook is strong, with the Company extremely well positioned in the prevailing economic climate.

“It is incredibly tough going right now for very many New Zealanders, but they still need cars, and those cars must be affordable. 2 Cheap Cars fulfils a vital need, and the full year results reflect that we are doing that well, in large part due to the hard work of departing CEO, Paul Millward.

“Paul is leaving the Company in robust shape with a simple, proven strategy well-embedded and the Board thanks him sincerely for his leadership and results. Future success will be found in continuing to improve BAU and prudent expansion,” he said.

Founder and majority shareholder, David Sena takes over as CEO from 1 June 2024.

Ends

This announcement has been authorised by 2CC Chair, Michael Stiassny.

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About 2 Cheap Cars Group
2 Cheap Cars Group is an integrated used automotive group. We are vertically integrated from procurement in Japan through to our retail branches nationwide. Operating under the “2 Cheap Cars” brand, our Automotive Retail company is one of the largest used vehicle sellers in New Zealand with 12 dealerships across the country. Our mission is to deliver on our promise… 2 Cheap Cars, driving better deals, every day.