



**Mr Martin Ward, Chief Executive Officer  
A.P. Eagers Limited**

**ABN AMRO Morgans Breakfast Briefing  
Brisbane Polo Club, Wednesday 17 May 2006**

---

Good morning ladies and gentlemen.

This morning I will say a few words about the automotive industry and explain the A.P. Eagers history and what we do. Due to this briefing being a few days after our Annual General Meeting I am able to also highlight our assets and growth opportunities as the market is equally fully informed. I will finish with a few words on employee equity and then summarize the Key Success Factor for automotive retail.

**Our Industry**

Four years ago in 2002 new car sales reached an all time record 824,000 vehicles in Australia. New car sales also increased in 2003 and 2004 and last year (2005) was yet another record year, the fourth in a row with 988,000 vehicles being sold.

Toyota was once again market leader with almost 203,000 vehicles followed by Holden with 174,000 and Ford with 129,000. These 3 brands represent half of all car sales in Australia but combined lost 2.6% market share during 2005.

Over the past year there has been a change in buying habits from large to small and mid size vehicles as petrol prices rose. The lost share I just mentioned by the big 3 was picked up by imported brands in particular Mazda, Honda, Hyundai, Volkswagen and Subaru who combined, increased their share by 2.9%.

All of the facts just mentioned are national numbers with national Australian vehicle sales increasing by 3.5% in 2005. A.P. Eagers however is fortunate to operate in Queensland and the Northern Territory where vehicle sales increased by a much larger 6.7% and 7.2% respectively during 2005.

**A.P. Eagers History**

A.P. Eagers Limited has its origins in the formation of E.G. Eager & Son, a family automotive company established in Brisbane in 1913 by Edward Eager and his son Frederick.

After establishing the State's first motor car assembly plant, Eagers became the distributor of General Motor's products in Queensland and Northern New South Wales and listed as a public company in April 1957.

A merger in November 1992 with Alan Piper's A.P. Group which owned a number of new vehicle franchises, saw the name change to A.P. Eagers Limited. Since that time further motor vehicle franchises have been added and growth has continued. Bridge Toyota in Darwin acquired in May 2005 is the Group's first acquisition outside of Queensland.

Operating predominantly in the Brisbane Metropolitan area the company's focus is on its core business of owning and operating motor vehicle dealerships which provide full facilities covering new motor vehicle sales, used motor vehicle sales, service, spare parts and the provision of allied consumer finance. These services are provided through some of Brisbane's best known dealerships and I will mention them shortly and no doubt some of you will be surprised at the extent of our dealership network.

Last Friday we had our 49<sup>th</sup> Annual General Meeting, so next year we will celebrate 50 years as a public company and 94 years since formation. In fact shareholders are asked to press lightly when signing the AGM attendance book, as the original book, now 49 years old, is still used today and the paper is showing some aging.

Some key facts that are worth noting. We reported a \$20 million profit before tax which is the fifth record in a row. Our dividend for 2005 was 38 cents fully franked. The Company has now paid a fully franked dividend that has increased every year for the last decade. The Company is also proud of its record of never failing to pay a dividend in 49 years as a public company.

### **Assets and Opportunities**

I would now like to spend some time to emphasize the tremendous asset base from which this Company operates and talk about the opportunities that we see as being available to us.

Our Market Capitalisation based on last night's close of \$7.70 is \$172 million. It therefore may surprise you to know that included in our assets at 31 December 2005 is an amount of \$178 million for land and buildings which represents some of Brisbane's prime real estate and certainly its most presentable motor vehicle dealership sites.

The fact that these properties, in well known motor vehicle precincts, are owned by the Company, underpins the support we receive from vehicle manufacturers in the granting of franchises to us. We also attract additional franchises by having available desirable properties and the financial strength to construct and operate viable trading facilities built to accommodate individual franchisors brand requirements. We should not underestimate the fact that the wide spread of franchises that we hold substantially lessens the Group's risk inherent in single franchised operations.

Additionally, we have built up a number of cluster operations which provide significant operational synergies and enable the efficient integration of low unit franchises to operate profitably alongside the majors or as a separate group.

By way of example, we have established cluster groups in the following areas:

Newstead: Incorporating nine franchises, Eagers Holden, Eagers Mazda, Austral VW, Honda and Land Rover, Porsche Centre Brisbane, City Subaru, Peugeot and Mitsubishi.

- Fortitude Valley: Incorporating three franchises, Metro Ford, Austral Volvo and Brisbane City Jaguar. Our Corporate headquarters are also located here.
- Woolloongabba: Incorporating three franchises, Southside Toyota, Southside Ford and Southside Honda.
- Mount Gravatt: Three franchises, Southside Toyota, Southside Land Rover and Southside Volvo.
- Brendale: Three franchises, Torque Ford, Torque Toyota and Torque Kia, as well as the Northside pre-delivery facility.
- North Lakes: Our newest cluster group currently under construction which will initially house three franchises– Torque Ford, Torque Toyota and Torque Honda.

### **(PRESENTATION)**

Within the \$178 million there is approximately \$30 million in properties that are not currently utilized or are under construction. For instance, properties at Toowong and North Lakes will come on stream later this year and early in 2007. They then become productive units as opposed to a drain on resources. Similarly, unutilized property on Breakfast Creek Road, Newstead and at James Street in Fortitude Valley will be either developed or sold during the 2006 / 2007 period.

Other properties will become surplus to our needs as a result of these newly constructed properties and will be sold.

All our properties will be independently valued in December this year as it is three years since the last full valuation.

Our philosophy of acquiring strategic property for future development and use does mean that we will continue to have an element of unused or underutilized property on our books, however, it is unlikely to be as high a proportion of our property assets as it is at present and consequently there will be lower unproductive holding costs going forward.

### **Growth Opportunities**

Our strong Balance Sheet, supportive financiers and loyal shareholder base provide to us a very strong platform from which to expand our business operations.

During the last two years we have added the City Automotive Group, Westpoint Subaru and Bridge Toyota to our franchise portfolio. Collectively they account for 20% of our current business.

It is our intention to continue to grow by adding immediately earnings positive businesses.

The recent addition of Bayside Honda / Kia at Cleveland offers tremendous prospects in a population growth area and extends the Group's presence in the strengthening Honda and Kia franchises. Additionally the acquisition in March of Brisbane Motor Auctions brings back to the Group a motor vehicle auction facility that is destined to play a leading role in improving our earnings per share, not only in the earnings it will directly generate but also in the ability of the Group to more effectively dispose of its wholesale used vehicles.

In so far as further expansion plans are concerned we believe that as independent motor vehicle dealers seek to retire the opportunities for a Group like A.P. Eagers to acquire new businesses will accelerate over the next few years.

Whilst there are still prospects in the Brisbane metropolitan market we foresee opportunities to expand into other large Queensland provincial areas, like the Gold Coast, Sunshine coast and other major Queensland towns. Additionally, with the strong presence we have through Bridge Toyota in Darwin we envisage being able to also grow our presence in the Northern Territory.

Interstate expansion along the Eastern Seaboard is also being considered in conjunction with expansion within Queensland.

There are exciting times ahead which we firmly believe will enable both the Company and shareholders to grow and prosper.

I am a firm believer in the view that management and employees with equity in the business become more result driven.

The recent allocation of \$1,000 worth of tax free shares in the Company to every employee with more than one year of service and which will be repeated next year is part of a plan to reduce staff turnover and help attract quality employees. A number of occupations within our industry have notoriously high staff turnover with a consequential high replacement and training cost. We are looking to arrest this high staff turnover and create a more stable and efficient workforce.

Additionally, we have introduced a Senior Executive Deferred Commission Plan that will see all of our top management, about 20, sacrifice a proportion of their commission for equity in the Company which will result in a reasonably substantial personal investment for each Executive within a 5 year time frame. This will certainly drive increased productivity and efficiency gains within the individual business units as employee ownership grows.

I believe three components have to be aligned to be successful in the retail motor industry. Great people, great products, and great facilities in the correct locations. Taking these in reverse, A.P. Eagers has not great but outstanding land and facilities in superb locations not only for today but also for tomorrow's growth and it astutely continues to purchase for the long term growth.

Great product in our case is driven by our outstanding franchise portfolio representing 15 of the world's best known car brands.

Our great franchise portfolio and our great facilities certainly help to attract great people, however the culture at A.P. Eagers, particularly continuing internal career opportunities, has also resulted in securing over time a management and employee team that is truly class leading in the Australian industry. The addition of real employee ownership and recognition is designed to take us to the next level, striving for world class benchmarks.

Taking these three fundamentals into consideration and then recognising four years of record industry growth, which has been proportionally greater in Queensland and the Northern Territory, it goes some way to explaining why I am excited and confident about A.P. Eagers' future.

There is one other fact to consider and that is the ability to grow through acquisition and our two most recent acquisitions in Cleveland and at Eagle Farm were exceptional value. We are continually approached with opportunities and we also seek out our own targeted ones. Industry dynamics should result in considerable consolidation over the next decade leading to short, medium and long term growth prospects. We have been busy recently in looking to expand our operations and expect to soon announce the acquisition of a further dealership to add to the Group at a cost in the \$10m to \$15m range.

To finish, I would like to say that I regard it as an honour to hold the position of Chief Executive Officer of this great company and I intend to use all of my energy and knowledge to deliver to the owners the results they deserve. Thank you.