Chairman's Address

Annual General Meeting

Wednesday 16 May 2018

With a record underlying profit before tax of $140.8 million and a record full year dividend of 36 cents, 2017 was another good year for A.P. Eagers and shareholders.

However, it is important to recognise the challenges we faced during the year, witnessed by a 5% drop in statutory profit before tax for 2017 and a 9.2% drop in earnings per share, even though these results were our second best ever.

Although our trading performances in Victoria, Tasmania, New South Wales Hunter Region and our national truck division were at record levels, these were tempered by challenging conditions in our two largest markets of Queensland and South Australia.

As I foreshadowed 12 months ago, 2017 was a year of transition for your company due to the unprecedented level of regulatory disruption facing the industry, ongoing commentary on electric cars, ride sharing, autonomous cars and the evolving retail market, which continues at an ever-increasing pace.

Whilst these circumstances created a degree of uncertainty and tightening margins across the industry, we believe they will inevitably hasten consolidation and restructuring for both smaller dealership groups and also larger networks in coming years.

Our management team has responded quickly and decisively to this challenging external environment, significantly reducing our cost base and improving efficiencies, while at the same time selling more cars than ever before, increasing our revenue and continuing to grow our dividend for shareholders.

With 5% of the market we are well placed, and on track, to take advantage as the industry evolves.

While our core business remains solid, we have continued our disciplined approach to growing through acquisition, with Porsche Centre Adelaide added to the group in 2017 to complement our already substantial business in South Australia. We have also increased our strategic investment in Automotive Holdings Group Limited to 24.9%.

For over 100 years, our suppliers and customers have been well served with our largest operational hub being located at Newstead. Now, as the industry evolves, so too do our plans for future generations, including the establishment of a major new automotive retailing and mobility hub on 64,000m^2 in Brisbane Airport's new $300 million Auto Mall precinct in 2021.

With the strength of our core business and our plans to take advantage of ongoing industry change, we expect that 2018 will continue as another year of transition, and Martin will expand on this in his address.

I would like to take this opportunity to thank my fellow board members for their enthusiasm, their discipline and their commitment to acting quickly and effectively for all shareholders.

On the board's behalf, I also thank our tireless Chief Executive Officer, Martin Ward, and his dedicated management team and staff. The company's results year after year reflect their desire and capacity to keep A.P. Eagers ahead of the pack while continuing to satisfy the needs of our many stakeholders.

I now ask Martin to present his report and comment on the year ahead.

Thank you.

Tim Crommelin
Chairman

CEO's Address

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Strong, credible, hard work are all words that could be used to describe the 2017 result. However it is still disappointing to report a negative Earning Per Share. The last time we reported a negative EPS was 2010. Over the following six years we then grew EPS by 160%.

It's time to get back to those days, how are we intending to do it?

Let's start with what has changed? We have identified six changes that I will explain and then show how A.P. Eagers is or will respond to each change.

Change #1: Three regulatory reviews have changed our Industry forever.

APE Response: We always work within the regulatory conditions set for us and our industry. Some of these changes were understandable and will in fact remove some negative perceptions of Automotive Retail and drive significant opportunity for groups like A.P. Eagers. We will be able to use our scale to embrace the new regulatory environment, while using disciplined process and procedures to outperform the industry.

Change #2: Widely reported expected product changes (Electric : Autonomous).

APE Response: Electric/Hybrid vehicles represent 1% of global and Australian sales. Over the next five years this will change very little. Why? The products simply are not currently available and will not be available on mass until 2022. Billions of dollars are currently being pumped into R&D by existing manufacturers to deliver a substantial lift in their plug-in electric and hybrid model ranges, with quoted representation of 5-20% of their available new vehicle showroom offerings by 2022.

The impact on the economic model of A.P. Eagers and the industry due to electric vehicles will slowly occur from 2023 onwards and we are the best placed group within Australia to manage this change. Extensive planning is already occurring even though physical dealership infrastructure changes are not required for approximately eight years.

Mass market autonomous vehicles are simply too far away at present. However we will constantly monitor their development and adjust and communicate should business model changes need to be made.

I will identify the next three changes together and then give the A.P. Eagers response.

Change# 3: Vehicle Usage Changes : Ride sharing / Car sharing

New players such as Uber / Lyft / DiDi / Taxify in ride sharing and GoGet and Flexicar in car sharing and car next door in Peer to Peer car sharing.

Change #4: Vehicle Ownership Changes : Subscription Models

New players such as Clutch and Flexdrive

Change #5: Retailing Changes : Shopping Centres / Big Box Warehouses / Pure Online / Others

New players such as Carvana (USA), existing players such as Easy Auto 123 (Big Box), our own Carzoos (online/shopping centre)

APE response to usage, ownership and retailing changes

APE Response to Ride Sharing: Ride sharing companies and taxi companies are going head to head around the world and their combined customer base has most likely grown. A.P. Eagers will not compete in this space but will continue to supply cars to taxi and ride sharing companies. We are also working on new business models that we have observed overseas to supply more cars to this sector in an innovative and commercially sustainable manner.

APE Response to Car Sharing / Subscription Models / Alternative Retailing Models: Over the last 12 months management and some directors have visited the start-up founders and CEOs of the globally recognised leaders in each of these sectors. We are not only comfortable that we understand these sectors, we could become a major or leading player within Australia in some or all of them. Most leaders in these spaces are still losing money usually defined as “investing” in growth. Some will win and prosper and some will fail. A.P. Eagers could become the leader in any of these sectors within Australia. However we will need to invest and determine which, if any, will deliver long-term sustainable returns.

All of the above five changes have occurred externally to the traditional Automotive retailer and collectively gained momentum over the last 3-5 years.

These five changes have caused change #6.

Change #6: Traditional Industry Changes, Restructuring Rationalisation and Consolidation

After decades of adding cost within Automotive retail (currently estimated to be $11 billion of annual industry operating costs), all industry participants, manufacturers and dealers agree this could be dramatically reduced without harming customer satisfaction if we work together.

APE Response: There is an enormous opportunity to substantially remove costs and reinvent what Automotive retailing looks like in 2025 and beyond. This has already started in earnest in some brands and planning in other brands is far advanced. A.P. Eagers is extremely well placed to participate in these changes and in many cases can lead these changes. A.P. Eagers prides itself on being a preferred partner to our OEM suppliers and will look to assist in the evolution of network strategies to create sustainable future footprints.

So where does this leave us today?

Acknowledging the tough past two years, this year is still not easy. However we expect to be marginally ahead of last year. May and June usually represent approximately 45% of our first half result so while we will not be attempting a half year forecast, we do not anticipate any surprises.

In the near term our biggest opportunities are within our core business recognising that restructuring and rationalisation will take place across the majority of the industry. Linked to this will be a rapid consolidation and our ability to grow through well-priced acquisitions is at an all-time high.

Because consolidation requires a range of resources, industry knowledge, skills, relationships and manufacturer approvals, it is not easy. We never take any of these for granted but we are the best placed to take advantage of these opportunities and whilst we will pay a fair price given the changing environment we will not overpay.

During 2018 we have already reviewed and we will review many more acquisition opportunities and it is likely we will complete a quality acquisition in the second half of 2018.

In summary, we have a good grasp of the start-ups and opportunities that changing consumer needs are presenting. We are carefully evaluating which ones A.P. Eagers should create or enter for long term Australian market leadership.

Our core business has taken a hit but it is very strong, it can and is adapting and it can grow substantially at fair prices.

On behalf of shareholder, as the company’s owners, may I take this opportunity to publicly thank each and every one of the 4,333 team members within A.P. Eagers.

Given the challenging underlying trading conditions it is fair to say our team worked as hard as they ever have. For this I am both thankful and proud. Our staff are truly the foundation of both A.P. Eagers success and longevity. Your company is extremely focussed making sure our plans for the future are underpinned by an engaged workforce working within an exceptional culture.

To this end, business culture is under a spotlight at the moment. Being the custodian of a 105-year-old company rightfully brings pressure on myself and management to maintain and grow the company’s legacy. I would like to share with you a video from one of our regions that I believe captures some of your company’s current culture. I hope you enjoy it.

Thank you.

Martin Ward
Chief Executive Officer