SUPPLY NETWORK LIMITED
ABN 12 003 135 680
1 Turnbull Close Pemulwuy NSW 2145
PO Box 3405 Wetherill Park NSW 2164
Telephone: 02 8624 8077

26 November 2019

The Manager
ASX Market Announcement Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir

Re: Chairman's Address to Shareholders

Please find attached the Chairman's Address to Shareholders being delivered to the Annual General Meeting today at 2.00pm.

Yours faithfully

Peter Gill
Company Secretary

Chairman's Address to 2019 Annual General Meeting

2019 Review

Revenue growth of 10.5% to $123.9m for the 2019 year was ahead of our earlier forecast and well balanced across all market segments and most geographies.

Earnings before interest and tax (EBIT) margin of 10.3% was slightly lower than last year as we absorbed higher costs associated with network expansion, particularly in New Zealand. Throughout the year, we also continued to add more depth to senior positions in operations and customer account management.

Profit after tax (PAT) of $8.7m (21.32 cents per share) grew by 6% supporting an increase in fully franked dividends declared to 14.5 cents per share for the year, a payout ratio of 68%.

As noted in the Annual Report, the Group has expanded our banking facilities with gearing of around 25% as at the 30th of June. Funds were applied to land and buildings in Christchurch and the remainder invested in stock to support growth. Although at higher levels than we have historically carried our gearing remains relatively low, particularly in today's low interest rate environment.

3-Year Plan

The 2019 performance has seen most financial targets set out in our Plan to 2020 met or exceeded a year ahead of schedule, which is a credit to Geoff and all staff for their efforts in getting us there.

Port Hedland and Hamilton branches and the new national distribution center in Hamilton were all opened, and Christchurch branch was moved to a larger purpose built site.

We also dedicated a lot of resource to building the Multispares brand and we are very pleased that increased market awareness is helping drive new business.

We have now put in place a new 3-Year Plan to 2022. This builds on the strategy that has been in place over many years; organic growth driven by further network and product expansion. Our high level 2022 targets are for revenue of around $150m and similar profit margins.

Work on this Plan has begun with a new branch at Eagle Farm opened in late October. Eagle Farm will service Brisbane Port, Brisbane's northern suburbs and the Sunshine and Capricorn Coast regions, also freeing up capacity at the existing Brisbane branch to better service clients south of the river.

Other new branches and investments to increase our distribution capacity are now under consideration and there will most likely be two or three new sites added between now and 2022.

We will continue our focus on the use of technology to improve operating efficiency and service standards. Business development will continue to be based around our core product range with a focus on product development to support larger fleet opportunities.

Directors are aware of increased consolidation activity in the wholesale/retail channels for aftermarket commercial vehicle parts in Australia. Over many years we have built a very strong supply chain, tightly integrated operations and a strategically positioned branch network, and we are well placed to benefit from industry consolidation. Our new 3–Year Plan continues along the same path, building the scale and skills that will allow us to profit from an evolving market over the next decade.

AASB16 Impact

As you may be aware, a new accounting treatment for leases was introduced at the beginning of this financial year. Although there is no change to cash earnings, reported earnings and balance sheets will be impacted. Going forward we will refer to Profit After Tax (PAT) and EBITDA in our releases, which appears to be the preferred approach by most comparable companies. Our reported EBIT will be significantly inflated by the new accounting treatment so EBIT comparisons with prior periods will no longer provide a meaningful guide on business performance. Reported gearing will also increase as all leases will appear on balance sheets but there will be no impact on our bank covenants.

Outlook

Performance for the first quarter of the current year has been solid with revenue up by around 14% on a like-for-like basis.

We will see additional costs in the second quarter of the year following the opening of our Eagle Farm branch and other growth initiatives, and this will put some pressure on earnings.

For the first half, we expect revenue of around $68m and reported PAT $4.4m. ($4.8m on a pre AASB 16 basis).

Closing

In closing, once again I would like to thank all staff for another great performance over the year, my fellow Board members for their efforts and shareholders for their ongoing support.