

Bapcor Limited

(ASX: BAP)

ASX Release

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Bapcor's Inventory Provision

Based on shareholder feedback following the release of Bapcor's FY2017 full year results, Bapcor is providing further information in relation to the increase in its inventory provision as at 30 June 2017 compared to 30 June 2016.

Bapcor's inventory provision policy and parameters have been consistently applied for over 5 years.

Bapcor applies its inventory provision policy across all of its business units and a consistent methodology is applied to existing businesses and well as to acquired businesses. When businesses are acquired, the inventory provision is calculated as part of the acquisition accounting process in line with the same Bapcor group policy. The resulting provision adjustment is recorded as a part of the acquisition.

Historically when Bapcor has made acquisitions the inventory provisioning policy of the acquired companies is typically less strict than Bapcor's policy and as a result we find management of inventory in the acquired businesses has been less disciplined and there is a greater proportion of aged, obsolete and slow moving inventory.

Bapcor's inventory provisioning policy is designed to drive appropriate inventory management within the business. Any variation to the provision as the result of additional or less aged, obsolete or slow moving inventory will result in an adjustment to the businesses profit in the year the provision movement occurs. It is in the best interest of management to proactively manage the aged, obsolete and slow moving inventory.

The increase in inventory provision from June 2016 to June 2017 reflects the following;

	\$M
Inventory provision balance at 30 June 2016	24.7
Inventory provisions raised on acquisition	
- Hellaby	20.5
- Other acquisitions	8.7
Net other movement in provision	0.1
Inventory provision balance at 30 June 2017	54.0

The Bapcor inventory provision policy requires that the business segments provide for inventory against two key parameters;

- i. where a unit of inventory has not recorded any sale for an extended specified period of time and it is likely that this inventory unit will not be sold, or
- ii. where inventory holdings for a unit of inventory are well above the annual level of demand for that product and a risk exists that this inventory will not be sold. These calculations are performed on an individual SKU basis. The sum of these individual calculations makes up the total inventory provision

On an ongoing basis there will be movements in the provision under the following circumstances;

- Bapcor has scrapped obsolete inventory and written it off against the provision
- There has been a change in the underlying performance of inventory management – either positive or negative and this will be included in the reported profit for the period.

Bapcor's auditors review the calculation of the inventory provisions created due to an acquisition and also the annual adjustments that is charged to profit.

To ensure transparency of provision movements, in the future reporting Bapcor will provide a reconciliation of the inventory provision in a form similar to the above showing the movements in the provision.

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