



## Call for Expressions of Interest

The Receivers and Managers seek expressions of interest for the **Crazy Clark's/Go-Lo** and **Sam's Warehouse** businesses owned by **Australian Discount Retail Pty Limited** (Receivers and Managers Appointed) (Voluntary Administrators Appointed).

**Expressions of interest should be lodged via email to [christos.kyriakides@ferrierhodgson.com.au](mailto:christos.kyriakides@ferrierhodgson.com.au) before 5pm AEST on Friday 6th February 2009.** Interested parties should visit [www.ferrierhodgson.com.au](http://www.ferrierhodgson.com.au) and follow the prompts to "Australian Discount Retail" for details as to how to register your interest and the process to receive further information.

30 January 2009



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## 1. Sale process

### Background to Sale of ADR

Australian Discount Retail Pty Ltd and a number of related entities ( “ADR ”) were placed in Voluntary Administration by its Directors on 20 January 2009. ADR’s bankers subsequently appointed James Stewart and John Melliush of Ferrier Hodgson as Receivers and Managers (the “Receivers”) on the same day.

ADR incorporates three core retail businesses: Crazy Clark’s/Go-Lo (274 stores), Sam’s Warehouse (99 stores) and Chickenfeed (28 stores). The Receivers have taken control of the Crazy Clark’s/Go-Lo and Sam’s Warehouse businesses and they are continuing to trade.

The Tasmania-based Chickenfeed is a profitable business which operates completely independently from ADR and is not in receivership or administration.

**The Receivers are now seeking expressions of interest for the sale of Crazy Clark’s/Go-Lo and Sam’s Warehouse businesses.** Proposals for the restructure and/or recapitalisation of the ADR Group will also be considered.

**The Receivers intend to give priority to offers which encompass all or substantially all of the assets and undertakings of ADR,** however offers for part of ADR will be considered.

### Indicative sale process timetable

The following is an indicative timetable for the sale of ADR:

Submit expressions of interest & confidentiality deed	Friday 6 February
Information memorandum available	Monday 9 February
<b>Indicative offers due</b>	<b>Friday 20 February</b>
Data room opens for due diligence	Friday 27 February
<b>Final offers due</b>	<b>Monday 16 March</b>

***Note:** This timetable is indicative only and is subject to change. The Receivers reserve the right to amend the timetable at their sole discretion.*

### Next steps & contact details

Interested parties are requested to complete the “How to lodge an expression of interest” form and Confidentiality Deed (refer to [www.ferrierhodgson.com.au](http://www.ferrierhodgson.com.au) and follow the prompts to “Australian Discount Retail”) and return them via email to Christos Kyriakides at [christos.kyriakides@fh.com.au](mailto:christos.kyriakides@fh.com.au) by close of business on Friday 6 February 2009.

Only parties that have completed, signed and returned a valid Confidentiality Deed will receive access to further information on ADR, including the Information Memorandum.

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## 2. Key investment considerations

ADR is Australia's largest discount variety retailer with 373 stores in operation across the country and employing approximately 2,700 permanent and 7,100 casual employees. ADR competes in the discount variety market on product excitement and price, appealing to value-conscious customers.

ADR incorporates three core retail brands: Crazy Clarks, Go-Lo and Sam's Warehouse. These are separated into two divisions:

- **Convenience:** Crazy Clark's/Go-Lo generated FY08 sales of \$426 million
- **Destination:** Sam's Warehouse generated FY08 sales of \$385 million

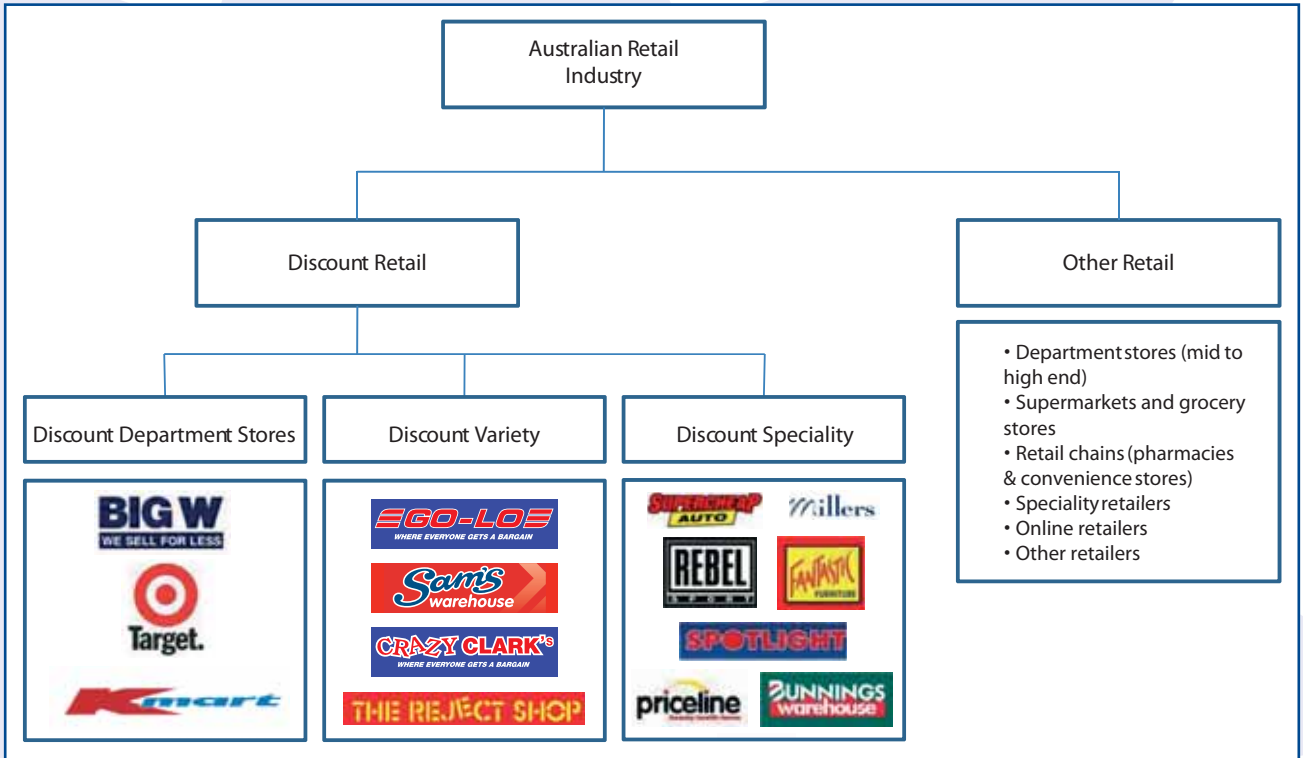
Parties interested in ADR should have regard to the following key investment considerations:

- **Leading player with \$800m+ in sales** – ADR is Australia's largest discount variety retailer with c. \$811 million in revenue in FY08. Management estimate this represents about 35% share of the market, which is more than double its nearest competitor.
- **National presence** – 373 stores across all mainland states of Australia, with a major presence in New South Wales, Queensland and Victoria.
- **Distribution Centres** - ADR operates three state-of-the-art distribution centres in Sydney, Melbourne and Brisbane.
- **Strong gross margin performance**– the business is achieving average gross margins of over 45%<sup>1</sup>, demonstrating strong buying competence a good supplier base, supported by a significant growing import program.
- **Revenue Growth Opportunities** – despite already having a leading share of the discount variety market, management sees significant opportunities for revenue growth through improved product ranging, stock flows and in-store execution. Management has developed a working model store concept for the convenience business (Crazy Clark's and Go-Lo) and is advanced in its development of a model store format for the destination business (Sam's Warehouse).
- **Product range** – ADR stocks a wide range of second-tier branded and unbranded products, supplemented by promotional offers in lead brands and a strong parallel import program which positions it well to benefit from its customers' desire for increased value.
- **Profit improvement potential** – an independent review of ADR conducted over that past three months has identified significant potential cost savings and management is currently working on a program of initiatives expected to deliver annualised savings in excess of \$20 million.

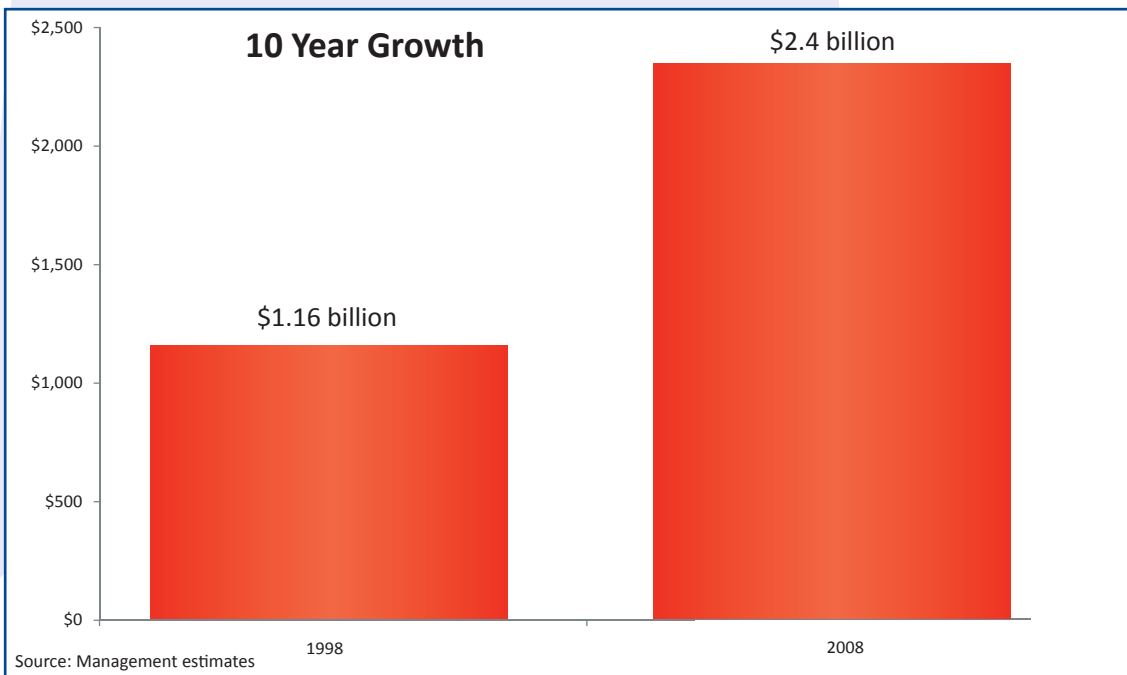
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### 3. Discount variety retail sector

The Australian discount retail industry serves a broad range of value-conscious customers who are attracted to low price points, this is a strong sector given the current economic climate convenient shopping locations and the opportunity to find bargains. The discount variety retail sector is a sub-sector of the discount retail sector, as illustrated in the following diagram:



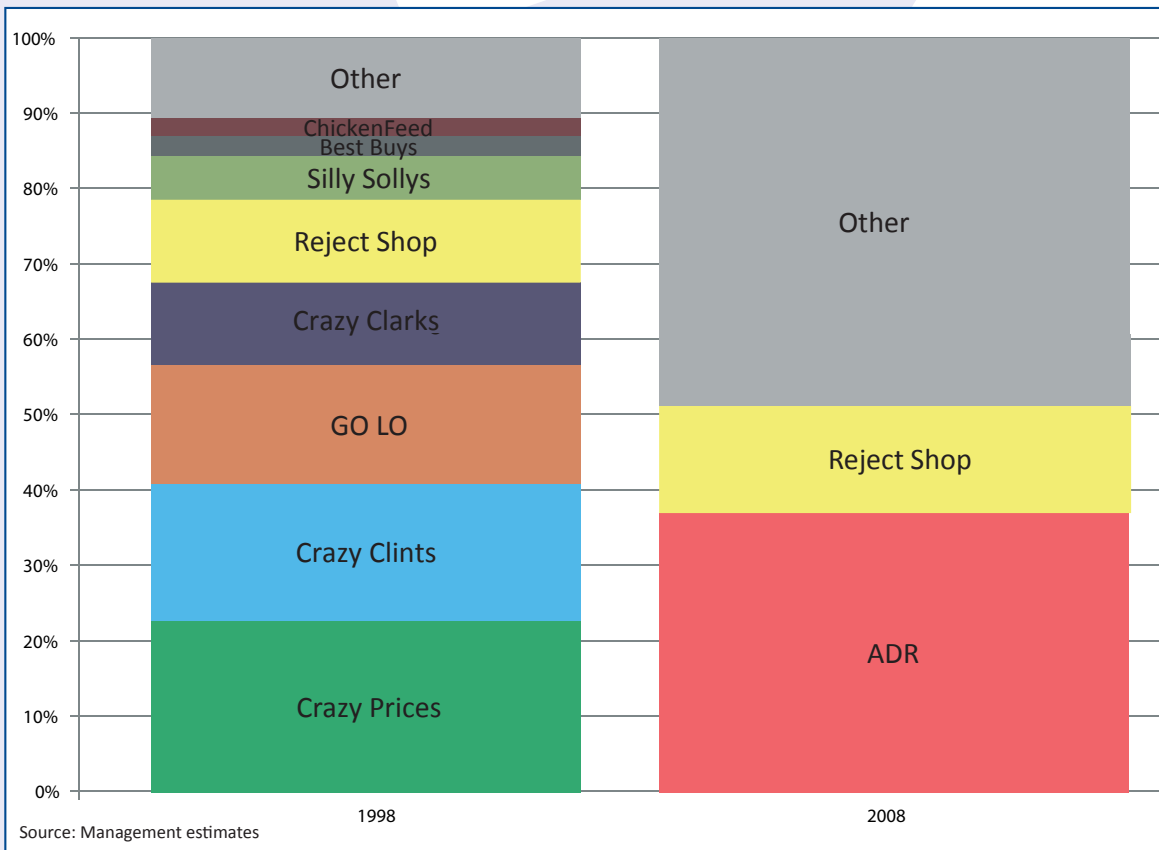
The discount variety retail sector is estimated to have doubled in the last ten years from c.\$1.16 billion to c.\$2.4 billion, equivalent to a compound average growth rate of 7.5% p.a.



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The discount retail sector has been experiencing the fastest growth within the retail market, both locally and globally. This growth has been attributed to a number of factors including the discount retail sector showing resilience to economic downturns, and the focus on everyday products at low prices.

The discount retail sector has experienced dramatic consolidation over the last ten years, with ADR holding c. 35% market share and the largest two players controlling approximately 51% of the market. The remaining share is held by independents and approximately 1,000 – 2,000 \$2 Shops<sup>2</sup>



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## 4. Business Overview

### Business history and background:

ADR was established in November 2005 following the acquisition of The Warehouse and Millers Discount Variety Group (DVG) businesses by CHAMP Private Equity and Catalyst Investment Managers for aggregate consideration of around \$200 million.

The major initiatives put in place whilst under private equity ownership include:

- ADR’s retail operations were rationalised under three core retail brands: Crazy Clarks, Go-Lo and Sam’s Warehouse
- Re-branding of The Warehouse business to Sam’s Warehouse
- Establishment of new state-of-the-art distribution centres in Melbourne and Brisbane
- Clear and distinct split of Convenience vs. Destination stores (based on store footprint)
- Implementation of SAP systems
- Recruitment of a new management team
- Rationalisation of store network

### Store format

Immediately following the establishment of ADR, the group consisted of mixed branding and store formats:

- The Warehouse Australia comprised 67 large format (circa > 1,500 sqm) stores and 56 smaller format stores (circa <1,000 sqm)
- Millers DVG comprised of 11 large format stores and 343 smaller format stores<sup>1</sup>

Today, the group consists of a total of 373 stores, with a clear distinction between the brands and formats based on the size of the stores. The 274 smaller stores across the group are now all branded either Crazy Clarks or Go-Lo, and are referred to as “Convenience” stores. The 99 larger stores in the group have all been renamed to “Sam’s Warehouse” and are referred to as “Destination” stores.

The Destination and Convenience formats are defined by the following characteristics<sup>1</sup>:

	CONVENIENCE Go-Lo/Crazy Clark’s <i>“where everyone gets a bargain”</i>	DESTINATION Sam’s Warehouse <i>“love a bargain”</i>
Product	Tight range: circa. 4,900 SKU’s	Wider range: circa. 12,000 SKUs
Price	Low price points (high % under \$10)	Low prices – further value delivered through promotional lines
Promotion	Catalogue driven – fortnightly & themed	Catalogues driven weekly
Place	400 – 1000 sqm (target 700 sqm)	1,500 – 3,500 sqm (target 2,500 sqm)
People	Friendly & helpful (self serve)	Friendly & helpful (self serve)

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## Geographical positioning of the brands

ADR's stores are located predominantly in Queensland, NSW and Victoria, with specific brands having stronger representation in specific regions:

STATE	Number of stores			Total	%
	Convenience Go-Lo	Destination Crazy Clark's	Destination Sam's Warehouse		
QLD	-	102	38	140	37.5%
NSW	81	22	29	132	35.3%
VIC	32	-	25	57	15.3%
SA	17	-	4	21	5.6%
WA	-	15	2	17	4.6%
ACT	3	-	1	4	1.1%
NT	-	2	-	2	0.6%
Total	133	141	99	373	

## Customer profile

ADR customers are predominantly female (79%), married (79%) and are over 45 years of age (62%). Household income is approximately \$50,000 per annum, 26% are employed on a full time basis, 17% are not currently working and 34% are retired<sup>3</sup>. The low price offering combined with the breadth and range of product is a compelling offer to this target market plus the wider community looking for bargains in tough times.

## Marketing strategy, customers & catalogues

ADR seeks to offer low price, quality and unbranded products with an extensive product range. The company focuses on catalogues as their primary form of marketing.

ADRT offer
<b>Lowest price</b> <ul style="list-style-type: none"> <li>Consistently low/lowest priced product in market</li> <li>Regular catalogues to communicate bargain pricing</li> <li>Ability to price lower than competitors due to scale, flexible, and direct relationships with Asian suppliers/agents</li> <li>Competitor price checking to ensure product not priced lower than necessary</li> </ul>
<b>Quality product</b> <ul style="list-style-type: none"> <li>Product mostly private label, with small proportion of branded parallel imports and branded job lots</li> <li>Fit for purpose products supported by guarantees and warranties</li> <li>Exclusive private label product lines across categories</li> </ul>
<b>Breadth and depth of range</b> <ul style="list-style-type: none"> <li>Carefully constructed product ranges with over 25 categories developed by format</li> <li>Product range strategy underpinned by product margin analysis</li> <li>Category management to address product adjacency and cross selling to improve store navigation and increase basket size</li> </ul>

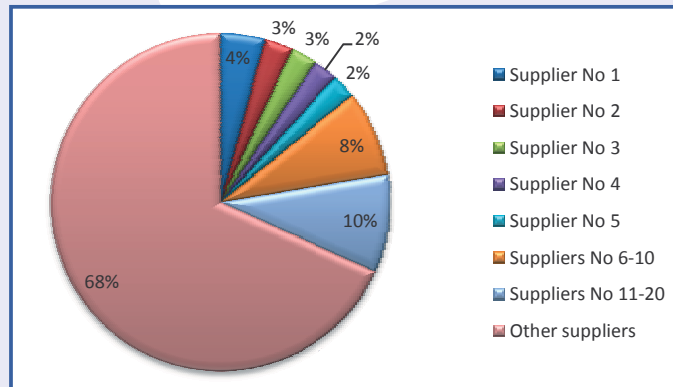
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**Suppliers**

The supplier base has been rationalised with the emphasis on developing relationships that are mutually beneficial and to ensure ADR gets the first right of refusal on special offers. Work has commenced on Supplier Terms of trade to tighten terms to ensure the maximum cash flow benefit.

The Company has almost 1,500 suppliers, of which 630 are foreign suppliers and 863 are local. The Company has a diverse range of foreign suppliers ranging from China to Europe and the United States of America.

The chart below represents the breakdown of the total purchases from top twenty suppliers.



**Supply chain (distribution centres & logistics)**

ADR operates three self-managed DCs in Sydney (47,000 sqm), Brisbane (50,000 sqm) and Melbourne (47,000 sqm), with the Brisbane DC serving c. 50% of the national volume. Utilisation ranges from 40% in the low season to over 90% in peak season (September to December).

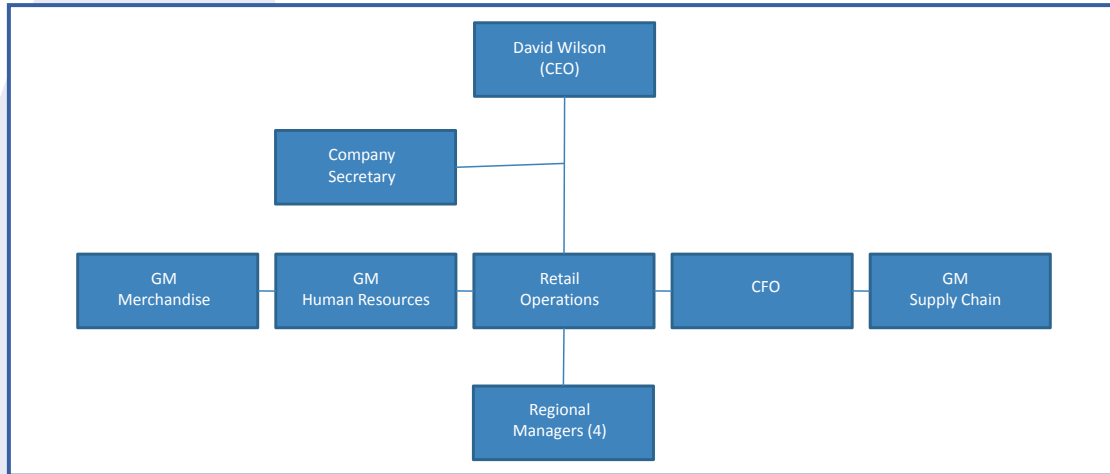
**Management & employees**

As at 27 January 2009, ADR employed approximately 9,800 staff, the majority on a casual basis. The employees are split across the following functional areas:

Australian Discount Retail employee summary as at 27 January 2009	
	Head count
Retail stores	
• Full time	1,627
• Part time	657
• Casual	<u>7,115</u>
<b>Total retail</b>	<b>9,399</b>
Logistics and distribution	175
Operations and retail support	61
Merchandise and marketing	70
Finance & property	55
Other head office	35
<b>Total</b>	<b>9,795</b>

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ADR's CEO is David Wilson, who has been with the business since April 2008 and is the former Head of Retail for Warehouse (NZ). David has 9 direct reports who, together with David, have a combined total of 206 years experience in retail, of which 122 years is in discount retailing.



## 5. Summary financials

ADR's summary financial information for the 52 week financial year ended 27 July 2008 is as follows:

July year end	FY08 \$
Sales	811,350,998
Gross Margin	383,463,597
Gross Margin %	47.3%
Shrinkage	19,663,717
Freight & Distribution	61,122,224
Gross Profit	302,677,656
Gross Profit %	37.3%
Cost of Doing Business	318,730,237
CODB %	39.3%
EBITA	-16,052,581
Depreciation	19,218,794
EBITDA	3,166,213
EBITDA %	0.4%

A selection of ADR's key performance indicators are summarised below:

ADR average KPIs			
	Group	Convenience	Destination
Shop profit (\$)	249,849	167,996	477,867
Sales per sqm (\$)	2,239	2,384	1,835
Wages to sales (\$)	15.6%	15.6%	15.6%
Rent to sales (\$)	9.7%	10.6%	8.6%

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Inventory Details FY08	
Net inventory	107.1 million
Inventory turns (times) <sup>1</sup>	4.1
Days inventory	91.5

Note 1: Calculated as FY08 COGS of \$439.7m divided by closing inventory at 27 July 08 at \$107.0m

## 6. Profit improvement opportunities

In December 2008, management commissioned an external review of the business by a leading accounting firm, with a view to reducing ADR's operating costs. Annual cost saving opportunities of circa \$20m were identified, principally in the areas of store savings, suppliers and back office head count.

In addition, management believes further opportunities exist in the following areas:

- **Comprehensive network restructure**— an analysis is being undertaken to assess the feasibility of a significantly reduced number of stores and commensurately smaller support structure
- **Store format optimisation** – new store formats are being piloted drive top-line revenue growth
- **Working capital improvements**
- **SKU and supplier rationalisation**

Further detail on these profit improvement opportunities will be provided in the Information Memorandum.

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