

A man with a mustache, wearing a red and black polo shirt, is smiling and looking towards the camera. He is standing in a garage, leaning against the open hood of a dark-colored car. The background shows the interior of the garage with some equipment and a brick wall.

Capricorn Report 2019

For the year ended 30 June 2019



CAPRICORN



CHAIRMAN'S LETTER

Year in Review

On behalf of your Capricorn Board of Directors, I am very pleased to present the Annual Report for the year ended 30 June 2019.

Capricorn has continued to build on the fantastic products, initiatives and rewards offered to Members.

At Capricorn, Members always come first. This was highlighted in 2018 when Capricorn Cares was launched to raise donations for drought-stricken farmers in NSW and QLD. Members donated a total of \$29,000, an outstanding show of compassion. Capricorn will launch its second Capricorn Cares campaign in September 2019, raising awareness and much needed funding for those affected by prostate cancer.

Over the past year, The Workshop, our voice of the Member platform, was visited over 29,000 times by more than 1,600 Members. The forum is the launching pad for providing valuable feedback to Capricorn, as well as connecting and sharing ideas with other Members. The most popular campaigns in 2019 were Ask The Experts on Capricorn Service Data and Footy Tipping.

CapTV entered its second year and during 2019, total video views were in excess of 25,000. The most popular being Welcome to Capricorn, Capricorn Trade Account and Making the Most of Your Membership. It's encouraging to see the videos being utilised as an effective method of explaining the many great benefits that come with being a Capricorn Member.

Giving value to Members is at the forefront of the Board's decisions and to this end it announced the first Member trade rebate in almost 10 years.

An incredible \$5m was returned to Members during the year, based on the 2018 trade account spend.

The feedback was overwhelmingly positive, so the Board has repeated the initiative and announced a second \$5m rebate on 2019 trade account spend. Like the first rebate, the 2019 trade rebate will be issued as Reward Points on the September 2019 statement.

Capricorn is also supporting the next generation of Members through the Capricorn Rising Stars program. 533 nominations were received this year from Members with talented young people who represent the future of our automotive repair industry. With a shortage of qualified mechanics and technicians, Capricorn looks to encourage apprentices who show initiative, commitment to learn and passion for the auto industry. A group of finalists and ultimately, the 2019 Capricorn Rising Stars winner was selected by a panel that consisted of some of the most experienced professionals in the Australasian automotive aftermarket industry. It is with pleasure I congratulate Jeremy Drabsch from Titan Automotive in Oxenford QLD for being voted the 2019 Capricorn Rising Star. Jeremy received an all-expenses paid trip to the 2019 Vodaphone Gold Coast 600 for

him and 3 friends, as well as a number of other fantastic prizes. I'd also like to thank our Sponsors which include Repco, Castrol, AutoMate, TAT and The Workshop Whisperer, Rachael Sheldrick, who helped make this award possible.

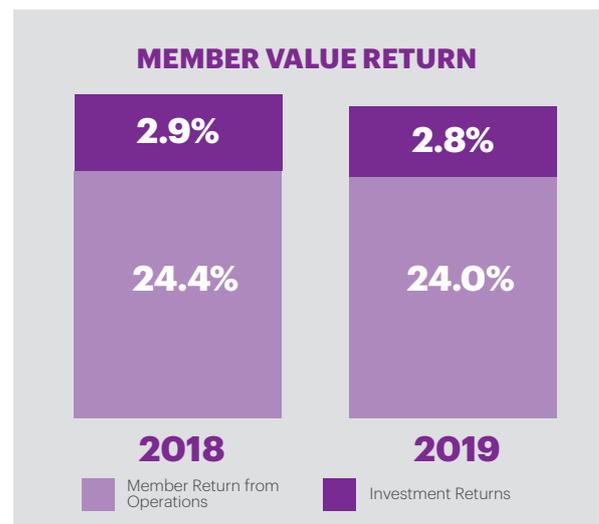
Returning Value to Members and Shareholders

With profit after tax of \$20.4m and dividends paid of \$13.7m Capricorn has had another fantastic year. However, being a Capricorn Member is more than just profits and dividends.

Capricorn membership provides access to one of the most generous reward point programs in Australasia. Members also benefit from exclusive products including Capricorn Service Data and AutoBoost.

Additionally, Members save time by receiving one consolidated statement for all their trade purchases, they have the opportunity to attend networking and training events and receive exclusive publications such as Purple Pages, Ignition and Sparks.

The Member Value Return has been calculated to measure the full value of being a Capricorn Member. Unlike a standard return on equity measure, the Member Value Return encompasses many of the benefits of Capricorn membership represented as a percentage return on investment. The amount of value returned to Members in 2019 totaled \$54.0m (2018: \$47.9m). Average equity also increased during the year to \$197.8m (2018: \$175.3m).



As seen on the Member Value Return graph above, Members have benefited from returns from business operations of 24.0% in 2019 (2018: 24.4%) and unrealised gains on investments returned 2.8% on average equity (2018: 2.9%).

Capricorn continues working on providing more benefits to our Members which will continue to improve the Member Value Return.

The Power of Cooperatives

Capricorn has been a key supporter of the Business Council of Cooperatives and Mutuals since its inception. During 2019, the Council released nine principles of corporate governance for cooperative and mutual enterprises. The Board has adopted these principles as they align to the philosophy and values of Capricorn. Full details are in the Corporate Governance section of this report.

Capricorn continues its relationship with the International Cooperatives Alliance (ICA) which was founded in 1895 to advance the cooperative model. Departing Group CEO, Greg Wall is a director of the ICA Board and continues to represent cooperatives from the Australasian region.

Unlike investor owned corporations who serve the different interests of customers and investors, a cooperative's customers are also its owners, which is why they are called Members.

By acting together, far more can be achieved than by acting alone.

In Conclusion

After another year of solid profits and strong operating cash flow, I am pleased to announce an ordinary dividend of 11% which equates to a gross dividend yield of 15.7% on contributed equity as at 30 June 2019. The dividend will be fully franked in Australia and partially franked to 18% in New Zealand.

The dividend is in addition to the \$5.0m trading rebate on Member purchases made in the 2019 financial year as detailed previously.

On behalf of the Board, I'd also like to thank Greg Wall for his 8 years of service as Capricorn's Group CEO. Greg has achieved many milestones during his time at the helm. When Greg began, Member purchases from Preferred Suppliers were \$1.1b. It is only fitting that Capricorn push though the \$2.0b milestone in Greg's last year. Well done.

I'd also like to welcome a familiar face to the role of Group CEO, David Fraser. David has been leading the automotive division for 13 years. He brings a wealth of experience to his new role as Group CEO and I thank him for his input in Capricorn's achievements.

I'd also like to thank my fellow Directors and the remaining Executive Leadership Team for their continued efforts. Their hard work has contributed to what has been another great year for Capricorn.

As a Board, we remain committed to returning value to our Members and providing opportunities for them to focus and grow their own businesses. Through the power of the cooperative, together we can achieve great things.



Russell Becker
Chairman

For a full copy of the Annual Report please visit capricorn.coop and click on 'Corporate Documents'.





2018/2019 Key Financial Highlights*:

Member purchases from Preferred Suppliers

\$2.04b

an increase of \$0.18b (10%) from 2018 (\$1.86b)

Trade Account Revenue

\$99.3m

an increase of \$8.0m (8.8%) from 2018 (\$91.3m)

Revenue from Contracts with Customers

\$22.8m

an increase of \$3.3m (17%) from 2018 (\$19.5m)

Other Revenue

\$3.1m

an increase of \$1.7m from 2018 (\$1.4m)

Reward points paid and rebates awarded to Members

\$40.3m

an increase of \$8.1m (25%) from 2018 (\$32.2m)

Net Profit After Tax

\$20.4m

a reduction of \$4.4m from 2018 (\$24.8m)

Cashflow from Operating Activities

\$20.3m

a reduction of \$0.8m from 2018 (\$21.1m)

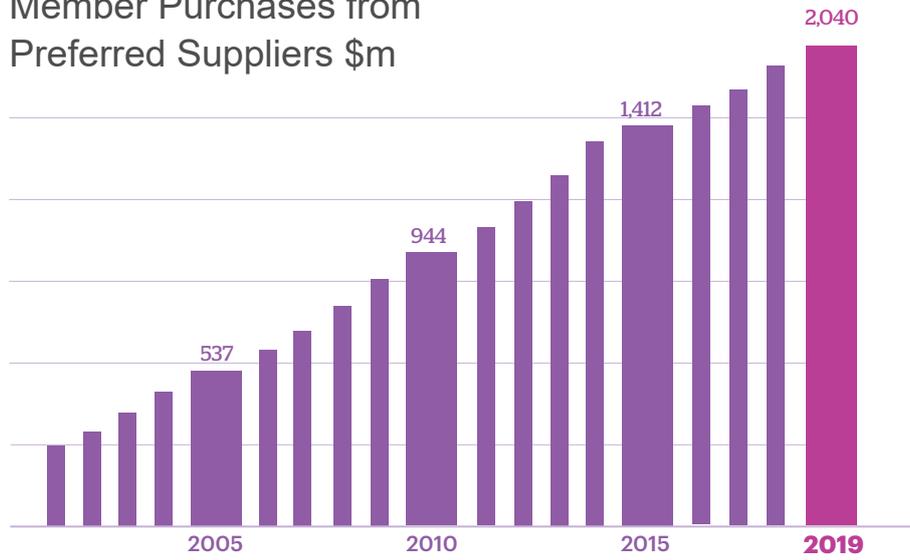
Cash and Term Deposits

\$90.9m

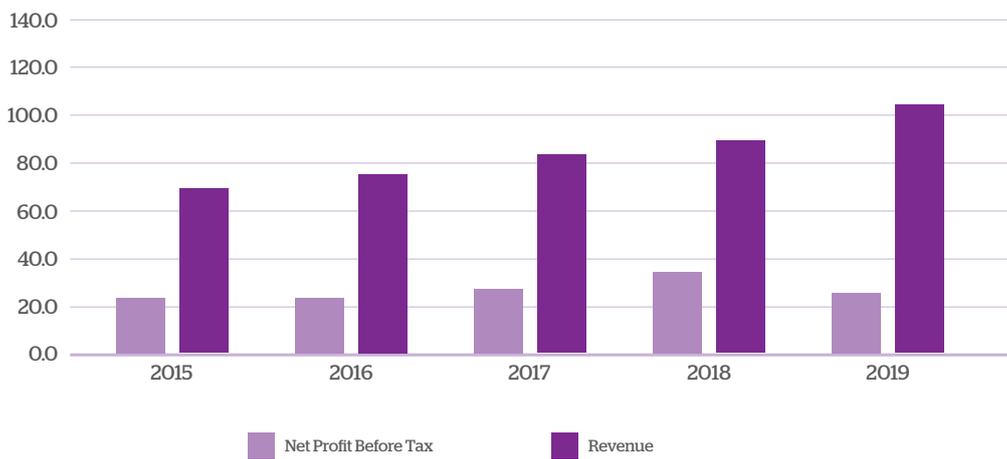
an increase of \$22.8m from 2018 (\$68.1m)

**The above key financial highlights have been audited as part of the Annual Report audit by Ernst & Young.*

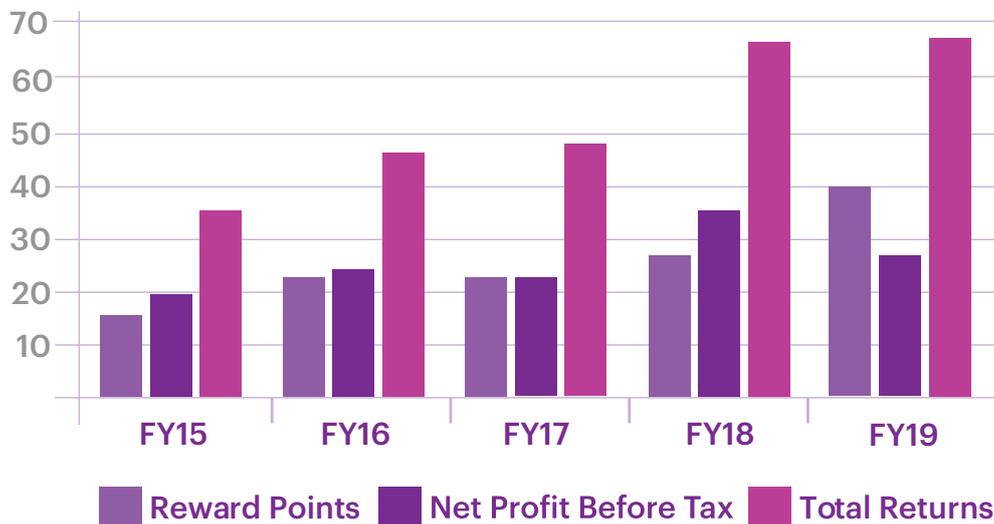
Member Purchases from Preferred Suppliers \$m



Five Year Financial Summary \$m



Member Returns \$m





LETTER FROM GROUP CEO

Beginning my new role as Group CEO, I'm pleased and excited to announce Capricorn has continued to perform strongly this year, achieving business profits after tax of \$20.4m.

I'd also like to thank former Capricorn Group CEO, Greg Wall for doing a fantastic job during his eight year tenure. I'm optimistic Capricorn will continue to grow and provide more value to our Members.

Automotive

In another record result, Capricorn Member purchases from Preferred Suppliers surpassed the 2 billion dollar milestone, finishing the year at \$2.04b (2018: \$1.86b).

New memberships continue to grow with a total of 20,909 Member trading accounts at year end, an increase of 1,244 Members since last year.

A number of new Preferred Suppliers joined Capricorn this year, broadening the product range for Members across Australia and New Zealand. During the 2019 financial year, 954 of these Preferred Suppliers achieved record sales through Capricorn. Total transaction volumes were also up in 2019 with Capricorn processing 14.6 million transactions in the year (2018: 13.6 million transactions).

Member purchases from Preferred Suppliers increased by 10.0% to a record \$2.04b, generating \$99.3m in Trade Account revenue (an increase of 8.8%). Revenue from contracts with customers increased 17.0% to \$22.8m. Interest revenue was up 12.2% to \$8.9m and other revenue was up 116% to \$3.1m. Other operating income decreased 33.2% to \$8.1m as last year included \$4.9m Capricorn Mutual Limited (CML) Loan impairment reversal.

Capricorn's Reward Point program continues to return value to Members with \$30.3m in reward points earned throughout the year (2018: \$32.2m).

In September 2018, Capricorn paid a trade rebate to Members of \$5m in respect of their trade account purchases in 2018. The rebate was issued by way of reward points on the September 2018 statement. We are also pleased to announce Members will receive another trade rebate of \$5m on their 2019 trade account purchases. The second trade rebate will also be issued as reward points on the September 2019 statement.

Risk

The Risk Division continued to improve with Capricorn Risk Services (CRS) writing \$64.3m in gross protection for CML. While Capricorn Insurance Services (CIS) brokered other general insurance products including Workers Compensation and Management Liability predominantly for Members with gross premiums totalling \$9.7m (2018: \$7.9m).

The hard work of the Risk Account Managers and support staff has seen CML increase gross written protections by 14.9% to \$64.3m (2018: \$56.0m). The operating surplus has

decreased to \$2.7m (2018: \$3.2m) as a result of increased claims by Members. Cash and term deposits at 30 June 2019 were up \$8.7m to \$33.6m (2018: \$29.4m). (The above results for CML are not consolidated into these Financial Statements).

The improved results of CML, along with other key internal measures, have enabled it to repay half of the loan advanced from Capricorn. It is expected the remaining loan balance will be repaid during the 2020 financial year.

Investments

Capricorn continues to support ASX listed, Pearl Global Limited, a tyre processing company that applies unique, next-generation thermal desorption technology to cleanly convert tyres into valuable secondary products.

Capricorn is pleased to participate in this important environmental business which is providing a solution to a huge industry problem.

During the year, \$15.7m was invested in shares and unit trusts (2018: \$9.1m) and \$17.9m was received by way of redemption or capital distribution (2018: Nil). The investments provided income distributions of \$2.5m (2018: \$2.0m) and unrealised gains of \$5.6m (2018: \$5.2m). The total value of investments at 30 June 2019 was \$67.7m (2018: \$66.8m).

Expenses

Personnel expenses increased \$4.4m to \$43.3m (2018: \$38.9m) off the back of additional Area Managers to support Member visits and \$2.3m project employees developing Capricorn's digital platform.

Remaining expenses (excluding the Member trading rebate) increased \$5.1m in line with business growth.

Cash and Share Capital

Capricorn generated operating cash flows of \$20.3m (2018: \$21.1m), down slightly from last year as a result of increased reward point redemptions and income tax payable. The flow through effect meant cash and term deposits at 30 June 2019 increased to \$90.9m (2018: \$68.1m).

Share capital has continued to grow on the back of Member share purchases and dividend reinvestment. At 30 June 2019 the balance of share capital was \$139.5m (2018: \$123.0m). Retained earnings also increased to \$70.3m (2018: \$64.3m).

Dividends and Rebates

During the year, \$13.7m was distributed to shareholders by way of an ordinary dividend of 11% (2018: \$12.4m).

Additionally, two Member trading rebates were declared during the financial year. \$5m was paid to Members by way of Reward Points in September 2018 calculated on Member trade account purchases for the year ended 30 June 2018.

In June 2019, the Board also approved another Member trading rebate of \$5m to be calculated on Member trade account purchases for the year ended 30 June 2019. The rebate will also be paid as Reward Points during September 2019.

Finally, as noted in the Chairman's Letter, the Directors have decided to pay an ordinary dividend of 11 cents in respect of the year ended 30 June 2019 which is the same dividend as last year.

In Conclusion

Capricorn continues to go from strength to strength, with a clear focus of returning value to Members.

Investment in technology has remained a key initiative for Capricorn during the year and will continue to be the focus as we move into 2019/20. In developing a core platform, Capricorn will expand the choice of digital interactions Members and Preferred Suppliers have with Capricorn to improve their experience and facilitate exciting new future projects and programs.

More Members have discovered the benefits of business improvement tools such as Capricorn Service Data and AutoBoost as usage rates continue to increase. The Workshop, our online community platform gives Members an opportunity to provide meaningful feedback to Capricorn and communicate with other Members.

As the figures suggest, Capricorn is in a great position. The future is looking bright for our cooperative as we move towards 2020 and beyond.

Yours in cooperation



David Fraser
Group Chief Executive Officer

Financial Statements (abridged)

	2019 \$'000s	2018 \$'000s	2017 \$'000s
FINANCIAL PERFORMANCE			
CONSOLIDATED*			
Revenue from contracts with customers	22,816	19,507	17,085
Trade account revenue	99,289	91,294	83,690
Less: Reward Points arising from Member purchases	(30,290)	(32,242)	(25,436)
Other revenue and other operating income	20,093	21,532	13,458
Total Income	111,908	100,091	88,797
Expenses			
Employee benefit expense	(43,345)	(38,869)	(37,392)
Member trade rebate	(10,000)	-	-
Other operating costs	(31,228)	(26,114)	(26,961)
Total expenses	(84,573)	(64,983)	(64,353)
Net profit before tax	27,335	35,108	24,444
Income tax expense	(6,924)	(10,331)	(6,678)
Net profit after tax	20,411	24,777	17,766
FINANCIAL HEALTH			
CONSOLIDATED*			
Assets			
Cash and term deposits	90,863	68,148	58,217
Trade and other debtors	210,791	197,335	182,841
Investment assets	71,285	70,255	51,077
Property, plant and equipment	18,066	17,157	17,144
Intangibles	13,732	15,373	17,325
Tax assets	9,990	8,593	10,104
Total assets	414,727	376,861	336,708
Liabilities			
Trade and other payables	198,734	184,071	171,496
Tax liabilities	3,929	4,703	1,019
Total liabilities	202,663	188,774	172,515
Shareholder Funds	212,064	188,087	164,193
CASH FLOW STATEMENTS			
CONSOLIDATED*			
Cash flows from operating activities			
Receipts from Members	2,002,699	1,820,905	1,658,130
Payments to suppliers and employees	(2,006,363)	(1,822,066)	(1,663,624)
Other operating cashflows	24,000	22,267	15,934
	20,336	21,106	10,440
Cash flows from investing activities			
Purchase of Property, plant and equipment	(1,609)	(1,161)	(673)
Purchase of Intangibles	(951)	(55)	-
Other investment cash flows	(8,344)	(9,681)	(13,646)
	(10,904)	(10,897)	(14,319)
Cash flows from financing activities			
Issue of shares (net)	3,572	423	(735)
Dividends paid	(736)	(787)	(722)
	2,836	(364)	(1,457)
Increase/(Decrease) in cash and term deposits	12,268	9,845	(5,336)

*NOTE: Please see 2019 Annual Report for detailed Financial Statements



Products & Services

Trade Account

Instant Trade Credit

Preferred Supplier Network

Rewards Program

Risk Protection Services

Financial Services

Travel Services (AU)

Fuel Card

Tradeshows

Social And Networking Functions

Dedicated Field Staff

AutoBoost

Capricorn Service Data

The Workshop - Online Community Platform

Capricorn Society Limited

Registered under the Corporations Act 2001

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