

Smiths City Group

CHIEF EXECUTIVES ADDRESS TO SHAREHOLDERS

21 August 2017

Roy Campbell

SLIDE 1: Title slide (as is)

SLIDE 2: Title: Smiths City vision and strategy

Thank you Craig and good morning ladies and gentlemen. It is my honour and pleasure to address you now for the third time as CEO.

It is almost unnecessary to point out that retail is undergoing a fundamental transformation. The rise of the online channel has brought new retailers to the market and ushered in much greater price transparency. The result is significantly intensified competition requiring retailers to focus on what makes them different and to play to those strengths.

Smiths City's vision, recognises these trends and aims to build on what I see as the company's four key competitive advantages. These are:

- our people;
- our strong finance offer;

- our nationwide network of 37 stores
- and finally, our ability to combine all three of these advantages into a compelling customer fulfilment platform.

Today, I want to spend some time taking you through how our strategy makes the most of these attributes and why - even in the face of changes in trading conditions - we believe it is absolutely imperative that we continue along this path.

SLIDE 3: Title: Our people are a core strategic enabler

Firstly, to our people. We have some of the best people in retail in New Zealand today working across all levels of our company.

Many people say this. However, I can attest that over the 30 odd years I have been in retail, I have never worked with a more dedicated, more vibrant and more professional retail team than Smiths City.

Our people are at the heart of our brand proposition. No matter how much we invest in the bricks and mortar of the business, they will always have the biggest influence over our customer experience and how people view our brand.

We are fortunate that our people already put our customers first and this shows in the strong customer loyalty that Smiths City enjoys.

We understand however, our success depends on the company maintaining its leadership. We must continue to attract the best people and build their capabilities so they are able to adapt and thrive in the fast-changing retail environment.

To ensure we achieve this, we are now rolling out team training programmes across the business. These programmes are targeted at those members that by providing additional skills to will generate the greatest uplift in company performance.

And, in a reflection of our commitment to building the capability of our team members as part of our training programmes, all programmes are New Zealand Qualifications Authority accredited.

SLIDE 4: Title: Building the Smiths City's culture

Any company rises or falls on the culture within the business and this is especially the case in retail where people are a key strategic enabler.

A culture is founded on shared values and aspirations. In essence, they describe all that our customers should expect from us. We express these values and aspirations as follows:

- Our customer is at the heart of what we do – every day, every time.

- Our promise is our most important product; our word is our bond.
- We achieve the highest standards; honesty and fairness guide us at every step.
- We share timely, accurate information recognising that it is the key to our success.

To ensure we entrench these values & aspirations and establish a 'can-do' culture at Smiths City, we continually engage with our staff across the business on our culture. As a result, we launched a new performance & incentive scheme throughout the company that codifies, recognises & emphasises the need to measure & reward performance consistent with the behaviours we need to deliver our customer promise.

SLIDE 5: Title: Smith City Finance builds relationships with customers

Our second key competitive advantage can be found in our finance offer. Smiths City Finance represents a core strategic advantage for the group. We are now, I believe, the only retailer of note to own and operate its own finance book in the New Zealand market.

This assists us to not only maintain close personal relationships with customers, but also to retain all profits flowing from providing a finance solution.

We have a significant opportunity to build on this and we are now in the fortunate position of considering what the finance business could become.

In June, we appointed a new GM Finance to lead our Finance division.

He is in the process of redefining the look, feel and offer of our finance products & evaluating what other opportunities there may be to widen our finance portfolio.

We want to make it more relevant, especially to those customers that demand a registration and approval process that is fast and at their fingertips – online or on their mobile devices.

SLIDE 6: Title: Smiths City is local

Our third key competitive advantage can be found in our nationwide network of 37 stores.

Clearly, national reach gives us the scale to ensure we are always offering value to our customers. We offer our suppliers the credibility of our brand & an opportunity to sell high volumes through our network.

This allows us negotiate reasonable prices and seek exceptional customer offers. Meanwhile, we can defray our marketing and administration costs across our national customer base.

Our acquisition of Furniture City and the opening of new stores in Hastings & Taupo have extended this reach into markets that offer long-term growth prospects.

The new stores also represent an enhancement on our fourth - and perhaps most important competitive advantage - Smiths City's opportunity to combine the three previous areas of strategic advantage into a compelling customer fulfilment platform.

The rise of the online channel does not mean the end of bricks and mortar stores. In fact, in our core categories of furniture and appliances, our stores become more important.

Customers in these core categories want to touch and feel the products before they buy. They want to sit on the sofa, test the comfort of the bed, see whether their chosen fridge has all the storage compartments they need.

They go online to see what a retailer offers and to compare prices. And then - and this is the important bit - they turn to the retailer they trust

who can deliver their chosen products most quickly and with the least fuss.

Importantly customer fulfilment often trumps price.

Good service, no-fuss delivery and the confidence that customers can talk to someone just down the road to make things right are highly valued by kiwis.

Importantly these qualities will beat - hands down - a good deal from a faceless retailer with no obvious fixed abode.

This is the strength of the Smith City proposition. We are a trusted brand. We have great products, great people and we are 'just down the road' for most New Zealanders.

Slide 7: Title: Bringing 'live better' to life

But there is work to be done.

The focus going forward is enabling our customers to "live better". To achieve this we need to put the customer first every time.

Every part of our operation is now being tested to see whether it adds value to our customers, if it does not then it has no place in our business.

From this, several priorities emerge.

We need to make our instore experience more compelling. The Hastings store - as we set out in the annual report - provides a glimpse to the future of the new Smiths City.

Slide 8: Title: Bringing live better to life

When customers come into the Hastings store they are presented with products in ways they can relate to and access easily and at their own pace - it's neither confusing or cluttered.

Slide 9: Title: Bringing 'live better' to life

We present furnishings in 'room and lifestyle sets' , helping customers imagine how a new sofa, dining table, or a bedroom suite may look in their home.

The following slides give you a sense of our new the look and feel

[ad lib commentary on other slides that tell the existing storey]

Hastings, I am pleased to tell you, trades well, despite tough competition from other national retailers. Its contribution in the current financial year will provide a welcome offset to the difficult trading conditions we face elsewhere in our network.

Meanwhile, feedback from customers and the increased sales we are seeing through our whiteware and consumer electronics validates the investment in the store.

We still have a long way to go in this location. But, it has proved that if you provide the customer with the right environment and the right product at the right price they will respond with their wallets.

As Craig noted we are in the final stages of refurbishing the Whangarei store into Smiths City “Live Better” livery, which will open in September, making it our Northern most Smiths City location.

Our Wairau Park and Mt Wellington locations will be ready for the Christmas trading period. We will then turn our attention to the remainder of our stores throughout New Zealand.

This reinvestment in the store network is being done sensibly and prudently to make sure that we don't over invest in our physical presence.

Meanwhile, our General Manager of Logistics, has been working hard to repurpose and reimagine how we will distribute product throughout New Zealand. This includes how we will satisfy our online fulfilment requirements.

To that end we have closed a number of small satellite distribution centres and this process has generated inventory efficiencies.

The acquisition of Furniture City has also given us an Auckland fulfilment centre to serve North Island markets and allows our Christchurch fulfilment centre to focus on the south.

We are also trialling measures such as 'direct-from-the-supplier-to-the-home' delivery systems. Our goal is ever quicker and more efficient service to our customers, wherever they are.

We have also started on the process of refreshing both our instore & customer relationship information systems. This is going to be a long journey but at least we have it in hand & our recent appointment of a new Chief Information Officer who brings deep knowledge in these areas should be seen as a measure of the importance we are placing on this area.

Slide 10: Title: Delivering the products customer want

Underlying all of this, we obviously must offer our customers the products they want.

To achieve this, we have reset our buying department to a category management approach. We have refreshed and rationalised our range to

focus on the products customers most seek from Smiths City. And we have taken steps to ensure we stock the right product at the right time.

Our buying teams closely follow the emerging trends and fashions to make sure that we are offering what the New Zealand customer wants.

We have seen the success of this in our new hard furniture ranges on offer instore, such as the Turin, Cadell, Asher, Eclipse & Frank ranges.

In addition to managing inventory through the rationalisation of our distribution network, we have quickly moved to dispose of products that are not meeting customers tastes.

We have made good progress. Inventory fell again this year by 10.1% following on a 17% reduction in the prior year and this has had no impact on our ability to service the market.

Slide 11 Title: Tackling the Auckland market

As Craig mentioned, trading has been tough, in many cases due to factors beyond our control. We have seen competition intensify with some of our competitors electing to chase revenue and accept margins that are simply not sustainable.

This competition has been particularly intense in the major metro areas.

Auckland has been a tough market for us over the past 11 months as it has been, I am sure, for any furniture or appliance retailer.

However, the Smiths City brand still remains untested in this important market and we are confident there is latent demand for our offer in Auckland.

Our confidence has been lifted with the success of the Hasting store and we believe our patience will be rewarded when we launch Smiths City at Wairau Park and Mount Wellington as mentioned previously.

Slide 12: Building value for Smiths City shareholders

In summary, our work to date has all been about positioning Smiths City to capitalise on its legacy and position the company strongly and securely for the future.

We have looked deeply at a fulfilment platform in terms of where we should be located to service our stores and our customers.

We have invested in our people to ensure we engage, inspire, train and motivate them to be the best retailers they can possibly be. And we have invested in our store layouts to ensure we can deliver a compelling in-store experience.

We have looked deeply into understanding our customers' needs and how we can provide them with a true value proposition that they can trust and rely on day after day.

I am pleased to say all of this is coming together to - slowly but surely - differentiate Smiths City from our competitors and build a position that will be challenging for others to match.

Retailing has never been easy and it is not going to get any easier or simpler.

However, one truth has endured and it is this: if you know your customer and you know the value of your product and you can demonstrate that value clearly, honestly and repeatedly in the market you will enjoy advantage.

We at Smiths City have never believed in trying to sell the cheapest product on the market, nor have we tried to offer anything other than true value to our consumers.

It is our belief that, as more people come to understand our proposition, we will build on our company's legacy and build on the returns we are generating for you, our shareholders.

I will now hand you back to Craig.

Thank you