Smiths City Group

CHAIRMAN'S ADDRESS TO SHAREHOLDERS

21 August 2017

INTRODUCTION

Before moving to the meeting formalities, Chief Executive Roy Campbell and I will talk about the progress the company is making and our plans for the future.

Smiths City will be 100 years old next year, having started as "The City Market" in Colombo Street, where founder Henry Cooper Smith turned what had been a brewery into an auction house.

The goal then was wellbeing of the company and that remains the first priority of any board of directors today.

We are guided by the long-term goal of building shareholder value and ensuring that shareholders benefit from this growth. We want to see a strong share price that reflects the company's prospects and we want to deliver sustainable dividends.

These objectives are firmly entrenched in our vision and strategy.

Our vision is to be a trusted national provider of furnishings and appliances enabling our customers to '**live better**' every day.

As we set out in this year's annual report, we will achieve this goal with a focus on:

- Growing sustainably and profitably;
- Putting customers at the heart of everything we do;
- Offering a leading and attractive finance product;
- Building the skills and capabilities of our people; and
- Delivering strong returns to shareholders.

Our focus on these goals has led to considerable change at Smiths City. We are now into the third year of what we see as a five-year plan to realise the potential of the business.

In the 2016 financial year – the first year of the plan – we closed unprofitable stores. We also made significant changes in our buying, store, operations and management teams and entered the Auckland and Northland markets with the acquisition of Furniture City.

In the 2017 financial year, we launched the **‘live better’** brand for our store merchandising, stocking and promotional activity. The first new store with this format was opened in Hastings in March this year and is shown on pages 12 and 13 of the annual report.

The next stage of the roll out is in Whangarei with that store opening next month. The two Auckland Stores will follow before Christmas.

Less visible parts of the strategy have included major changes in product sourcing and range and inventory management. We have also made changes to our logistics and supply chain arrangements and renegotiated our working capital facilities and finance company funding lines at favourable terms and conditions.

Notwithstanding the current challenging trading environment, these structural changes have delivered improvements in financial performance.

In the year to 30 April 2017, revenue reached a new record of $227.4 million, up 2.5% on the prior year. Trading profits, which exclude the one-off gain from last year’s sale of our Colombo Street property, rose 53.8% to $2.0 million.

We are in a strong financial position, with net cash on hand at the end of the financial year of $12 million. All debt in the group is carried against our finance business.

Your board has taken steps to ensure shareholders benefit from these gains.

Firstly, we have again held the dividend at 3.5 cents per share, but we are now providing the dividend with imputation credits to make them non-taxable in the hands of most shareholders.

We expect soon to be in a tax-paying position and therefore we have elected to prepay some tax to provide this benefit.

And as announced early this year, the board has agreed in principle to a $5.7 million capital distribution to give shareholders the opportunity to share in the company's earnings and the proceeds from last year's sale of the Colombo Street store.

The buy-back, which is subject to the approval of the High Court and shareholders, will see $5.7 million or 11 cents per share distributed to shareholders.

Your directors believe it will also put in place a capital structure that ensure shareholders benefit over the long-term from the changes we are making to the business. Again, it is directors' intention to distribute the capital tax free.

We plan to hold a special meeting of shareholders later this year to approve the distribution and we will be providing shareholders more detail soon.

Finally, our share price has shown considerable improvement.

It still lags the net asset backing of 97 cents per share. But as the market starts to see the impact of our strategy for growth and profitability, we should also see the share price rise to reflect the underlying value in the company.

Moving to the outlook. The changes we are making to the group are especially important when viewed in the context of the challenging trading conditions we face.

Same store sales in the 2017 financial year increased 3% to $198.2 million. But in the second half of last year, sales slowed considerably coinciding with the Reserve Bank's moves to curb the housing market and a strong step up in competition.

These trends have continued in the new financial year. In the first quarter to the end of July, same store sales are down 5%. Even though confidence in the rural economy is improving, this has not been enough to offset lower spending in the cities.

We have seen some early signs of improvement in August, but our base case is for these challenging conditions to persist at least until the results of the September general election are known.

Such trading volatility is the nature of markets and the nature of retailing. It is a cycle that Smiths has successfully negotiated over many years.

The challenge for the company in these conditions is to continue to protect sales and margins but to do so without compromising our reputation for excellent service.

We think we are achieving the right balance and we are confident that our market and customer positioning and our strategy for sustained profit and business growth will deliver for shareholders over the long term.

[Directors]

Lastly, I would like to pay tribute to John Dobson who steps down as a director at the conclusion of this meeting.

John has served on our board for over 23 years and has brought to the table a wealth of experience in finance, business and life.

During those 23 years, we have seen 7 years of boom, 7 of recession, 7 of either upturn or downturn, and only 2 of stability.

It's been a rollercoaster ride John. I would like to thank you for all that you have done for Smiths City and the shareholders over these years.

We are now looking for a replacement for John and to that end we have engaged consultants to work with us to select a senior director with the right skills to complement the existing board. We hope to be in a position to announce an appointment before Christmas.

I will now pass over to Roy Campbell to discuss progress against our strategy in more detail.