CRAIG BOYCE - CHAIRMAN'S ADDRESS
TO SHAREHOLDERS OF SMITHS CITY

25 AUGUST 2015

INTRODUCTION

Before moving to the meeting formalities Roy Campbell and I will talk about the Company.

I want to cover far different matters from when I talked with shareholders at our last AGM 26th August last year. At that time we saw the uncertainty of the last five years behind us and strong retail and consumer confidence. As we all know the picture has changed and for Smiths City we saw this almost immediately after Christmas with sales harder to get and margins under pressure.

CHANGE MUST HAPPEN

In all sectors of the economy change is accelerating and companies are having to re-examine their business strategy and operating model. At Smiths City we are no different and change must happen to be profitable and successful in the future.

I am confident that we will make the changes necessary but also that our core business of furniture and appliance retail and customer finance is strong and will see us through the downturn expected over the next couple of years.

There is much to be positive about in our company position at the end of the 2014-15 year despite the retail loss showing in the annual accounts. Overall we achieved growth in same store sales of 2.5% despite the four months after Christmas becoming much tougher. The core Smiths City South Island, which still represents 80% of our sales, traded ahead of last year but margins did come under pressure to retain market share – the South Island remains the “foundation rock” for the company and is the focus for improved margins.

The LV Martin and Powerstore operations which we refer to as “appliance only stores” simply make margins which are too low to be profitable. Our competitors publish poor results and a major Australian chain “Good Guys” last year closed all its store in NZ and withdrew back to Australia. We closed four of our stores last year and a further three in the first quarter of this year leaving only four “appliance only” stores remaining. Our strategy is clear – unprofitable stores must have a business plan to be profitable or they close.

PRIORITIES

In the retail operations our new CEO and his management team are working on customer service, review of all costs, particularly buying and logistics, elimination of loss making operations, and revamp of our marketing – he will talk with you on these matters.

In the consumer finance business results are in line with last year but increased effort is going into marketing, operations and instore information. This is to find ways to make our famous "easy pay" finance offer attractive and easily accessed by customers – you will have noticed our brand ambassador Kerian Read helping get recognition of the Smiths City Finance brand.

INSURANCE

On the Balance Sheet front we had the major "one off gain" in last years accounts from the final insurance settlement on our Colombo Street, Christchurch site. The $8.5million final payment and the independent revaluation to $17.8million lead to increasing the shareholders' funds to $49.6million or 91cents per share from 78cents per share the previous year. This insurance settlement was used to repay debt after the board made the decision not to rebuild the head office there but to continue to rent suitable premises at Sockburn. In comparison with the previous year our Group nett borrowings fell by $6.5million to $14.2million at balance date. The borrowings for the finance company are in addition to this in a separate subsidiary.

This brings to an end five years of negotiation and settlement of insurance claims including stock, shop fittings and operational assets, business interruption and this final property settlement – the total claims were $32.5million. I would like to acknowledge the huge efforts of Brian Lee our Chief Financial Officer and Rick Hellings our Managing Director through this period who stepped down from that role at balance date.

BALANCE SHEET AND BANKING

Regarding the Colombo Street site, later in the meeting we will ask shareholders to approve its sale and the leasing back of our key retail store there. The reason I raise this now is that the proceeds from the sale will again be used to retire debt to the point where the only Group borrowings will then be a small overdraft for the retail operations. This will put us into a very strong balance sheet and banking position to face the forecast difficult trading ahead as the economic downturn which is with us in NZ and particularly in farming and the provinces, leads to reduced consumer spending.

Looking ahead – yes we may have to borrow again in the future for any new expansion or business development but this will be considered on a case by case basis and in line with our Strategy.

Our sales so far in the four months of the current financial year are 2% down on last year, however, this becomes a 1% improvement on a same stores basis – we are seeing the reduced spending in rural centres like Ashburton, Timaru, Oamaru, Greymouth and Gore – but is not a surprise and we are confident we are holding market share, particularly in the higher margin furniture, flooring and bedding markets.

We have had some changes in Directors on the board since the last AGM. Sheena Henderson from Christchurch came onto the board this year – she brings great experience in the area of sales, marketing and brand development.

As I have mentioned in the past I and the board would like to acknowledge all of our 700 staff – those in the front line as well as the delivery, installation and back office sides of the business, for their dedication and service to customers and the company.

I will now pass over to Roy Campbell who took over the position of CEO on 1st May this year and so has been with us for four months – welcome Roy.