

## CHAIRMAN'S ADDRESS

### ANNUAL MEETING

8 September 2016

#### INTRODUCTION

Before moving to the meeting formalities CEO Roy Campbell and I will talk about the Company and our plans for the future.

We want to be clear about what our Strategy and Business Plans are and how they will be directed towards three Goals:

- Improved Profits and Return on Investment.
- Increased Shareholder Value.
- Growth.

#### CHANGES AT SMITHS CITY

When I addressed the shareholders at the Annual meeting last year I said **“At Smiths City change must happen to be profitable and successful in the future”**.

This year I can confirm that we have done what we said we would. Change has happened and the profit results are up. We expect our trading results to continue to improve which will provide for better returns to shareholders in the months ahead.

For the 2016 financial year under review same store sales were 2.4% up on the previous year and EBIT before extraordinary items was up 16%. In the second half of last year as the big changes

started to take effect the trading profits of the Group doubled on the previous year.

We are pleased to tell you that the first quarter of this financial year to July continues upward with same store sales 10% up on last year and profits tracking substantially above last year and ahead of budget.

We are only part way on the journey of improved performance in Smiths City and our CEO will take you through the next stages.

Just to summarise the changes made over the last year we -

- Closed seven loss making “appliance only stores” and opened a Smiths City store in Taupo.
- Exited the loss making Alectra appliance service operations.
- Reduced costs with 20% less employees compared with the previous year end.
- Changed the core consumer finance offer to a more easily understood and popular one.
- Revitalised all Smiths City people to focus on the customer, with products in store to meet the market and a single brand SMITHS CITY.
- Reduced our stock levels and working capital with no bank borrowing in the retail business at year end and reduced borrowings in the Finance company where the equity has been increased.
- Opened in Auckland with the acquisition of the FURNITURE CITY chain of three stores.

These changes inevitably incurred costs in restructuring and redundancy which were outlined in the annual report but this is mostly now behind us. We are looking forward confidently to the next stage with changes occurring through the appointment over the last year of a new and experienced senior management team as well as a revamp of our stores and focus on getting the best from our strength in customer information and loyalty.

### **SHAREHOLDERS**

So what does this mean for you as shareholders?

Firstly on dividends we will cover this when we report the half year result which is normally around Christmas time. All I can say is that given a continuation of the present improved profits it would be the Boards wish to provide an early Christmas present of an increased dividend. We are likely to finally use all of our carry forward tax losses next year. One advantage of having to commence paying tax is that dividends sometime in 2017-18 will attract tax imputation credits.

The share price has improved but still lags the nett asset backing of 95 cents per share. As the market starts to see the improved results we should also see the share price move up.

### **OUTLOOK**

Now that the early gains from change are behind us the business is focussed on the next stage – Improved customer experience, better product and margins, lower costs particularly in logistics

warehousing and delivery to home, and improved performance from the Finance company.

We intend to grow but only after careful evaluation of the many opportunities presented to us and taking care not to stretch the Balance Sheet or the management team.

As I said last year we are confident of our market and customer position and our Strategy for sustained profit and business growth.

### **DIRECTORS**

We have a small number of Directors on the Board with one change since the last Annual meeting. Tony Allison from Dunedin came onto the Board this year – he brings great experience in the area of finance, management and retail. Our recent appointments have given the Board Directors with complementary skills as well moving up on succession.

Three years ago we increased Directors fees based on independent advice and fees have remained about the same level since then. At that time we undertook to get an independent review done after three years and this has indicated an increase would be required to bring the Company into line. We have decided to defer this until next year and will come back to shareholders at the next Annual meeting.

I will now pass over to Roy Campbell to talk about our Strategy; our People and our Plans.

**CRAIG BOYCE - CHAIRMAN**