



**Smiths City**

# Annual Meeting

THE TANNERY, WOOLSTON, CHRISTCHURCH

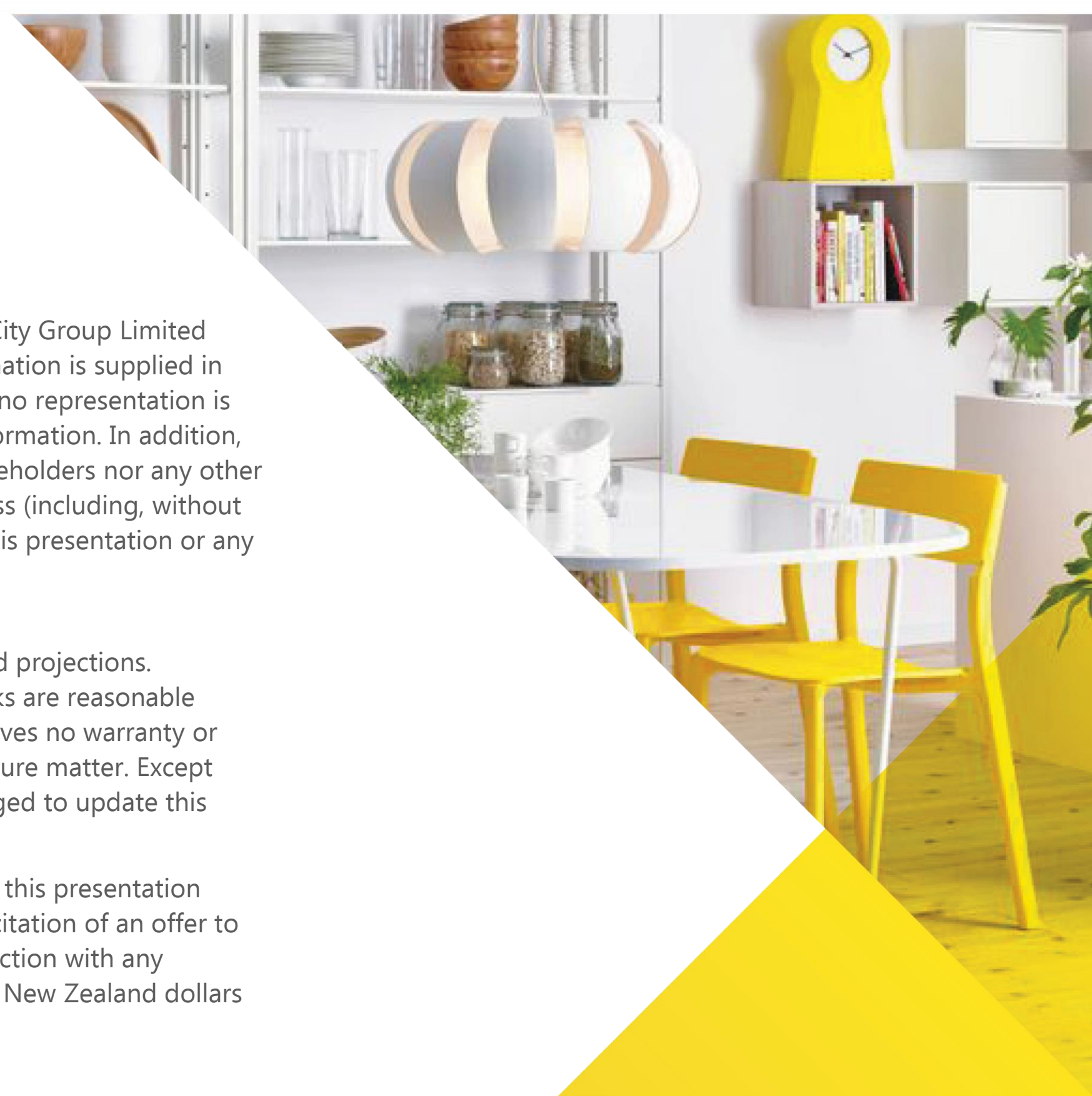
5 SEPTEMBER 2018, 10.30AM

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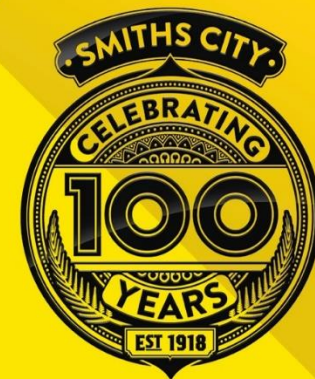
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**Alastair Kerr**  
Chair



# DIRECTORS



**Alastair Kerr**  
Independent Chair



**Tony Allison**  
Independent  
Non-Executive Director



**Antony Karp**  
Independent  
Non-Executive Director



**Benjamin Powles**  
Independent  
Non-Executive Director

# AGENDA

- 01 CHAIR'S ADDRESS
- 02 CHIEF EXECUTIVE'S ADDRESS
- 03 MERCHANDISING
- 04 FINANCE
- 05 QUESTIONS
- 06 RESOLUTIONS
- 07 GENERAL BUSINESS
- 08 MEETING CLOSE





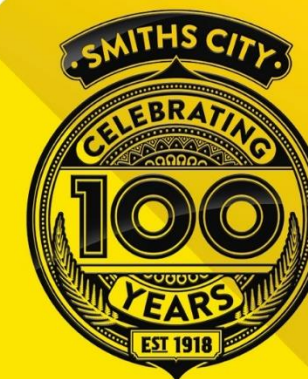
# BUILDING ON OUR LEGACY

- Smiths City has endured for 100 years thanks to the loyalty and good will of generations of New Zealanders
  - We have a national footprint and we are adapting to the digital age
  - Trust is strong and we are synonymous with good service
- But we are not making the most of our potential
  - The store network and systems need significant investment
  - Need to refocus on our customers both the 'loyal core' and the 'next generation' across New Zealand
  - The results for FY2018 financial year reflect these challenges.
- Smiths City is introducing new energy into its transformation programme
- Intend to resume dividend payments when Smiths City is sustainably generating cash in excess of its investment requirements





**Roy Campbell**  
Chief Executive  
Officer





1924



1966



1970



1983



1984



1993



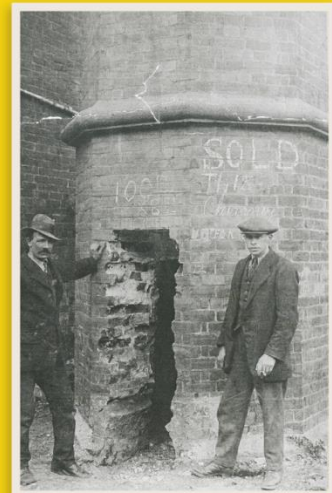
2017



1918



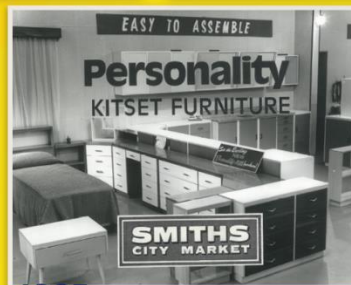
# Celebrating 100 years of making your house a home



1920



1954



1965



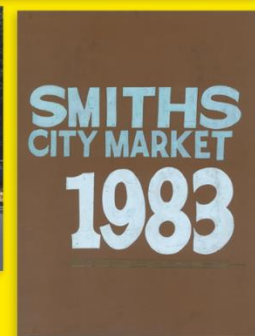
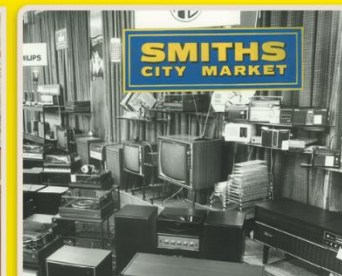
1974



1981



1982



1993

2017





# A DIFFICULT TRADING YEAR

## Challenges

- Intense competition and soft demand
- Trading challenges made worse by:
  - Store refurbishments and closures
  - Auckland stores trading below expectations.
  - Insufficient focus on customers in some areas.

## Achievements

- Transformation programme continues
  - Store refurbishments and closures
  - New store management in Auckland and localised marketing support
- Relaunched our online store which is growing strongly
- Protected margins
- Best furniture and appliance retailer in the Roy Morgan customer satisfaction awards
- Customer Radar net promoter scores among the best in the retail industry



# OUR MISSION

To become New Zealanders  
first call for furniture and appliances.

We use every point of customer engagement  
as an opportunity to build an enduring relationship.

We build trust through integrity and transparency  
– and by experts in our products and categories.

We make sure we have what customers want  
– by offering an outstanding product range  
that is desirable and affordable.

We focus 100 percent on our customers,  
by listening to them and putting their needs first.

Because at Smiths City, it's not just about making a sale,  
it's about building an enduring relationship.





# STRATEGIC PRIORITIES



1

## Operations

- Investment in the brand
- Invest in technology, systems
- Regionalise the Live Better brand experience
- Continue to develop logistics and the customer supply chain



2

## Finance

- Enhance digital platform
- Introduce greater flexibility to provide new choices to customers



3

## People

- Continue to build a high-performance culture
- Continue to invest in training and development



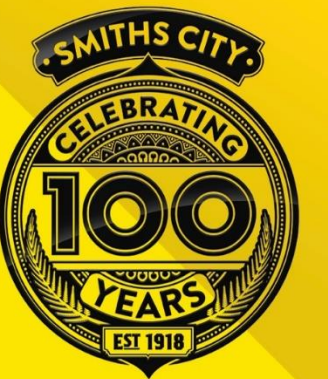
4

## Capital management

- Continue to review leases and exit non-performing stores
- Continue to improve working capital and inventory balance



**Tony Kingston**  
GM Merchandise







**PRODUCT**



**PRICE**



**PROMOTION**



**CUSTOMER  
EXPERIENCE**

# PRODUCT INNOVATIVE, RELEVANT AND ON TREND

- Technological advancement is driving convergence
  - We must sell solutions
- Change is constant
  - We must be forward thinking anticipating changing trends in designs, technology and customer tastes
  - We must be decisive and exit lines that are not moving
- New Zealand is not homogenous
  - We must cater to different regional and sub-regional market preferences





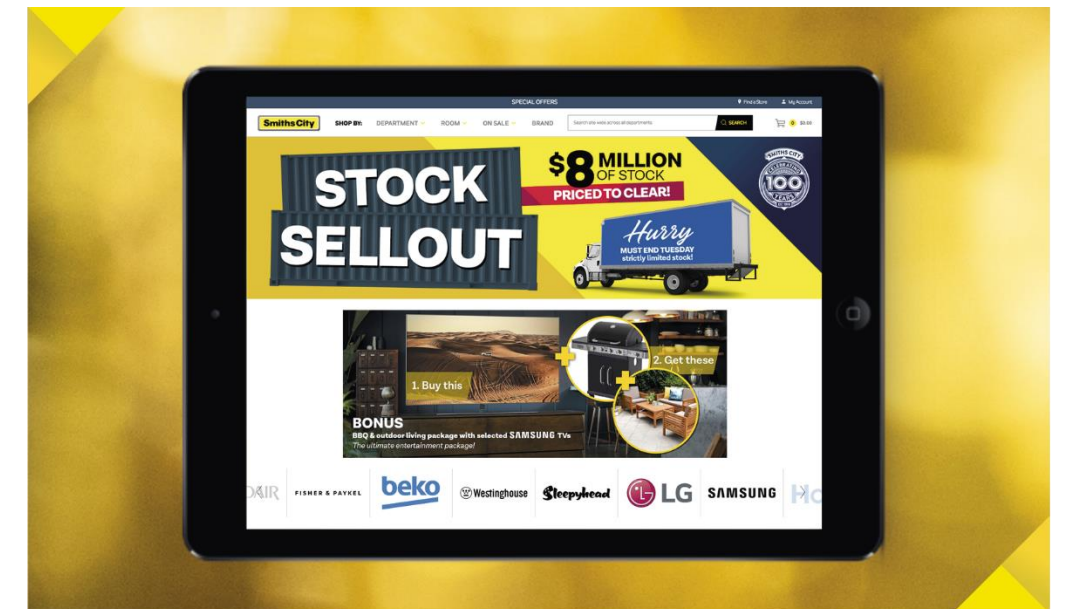
# PRICE FOCUS ON VALUE

- Technological advances have introduced complete price transparency
  - We must be competitive, but maintain a margin



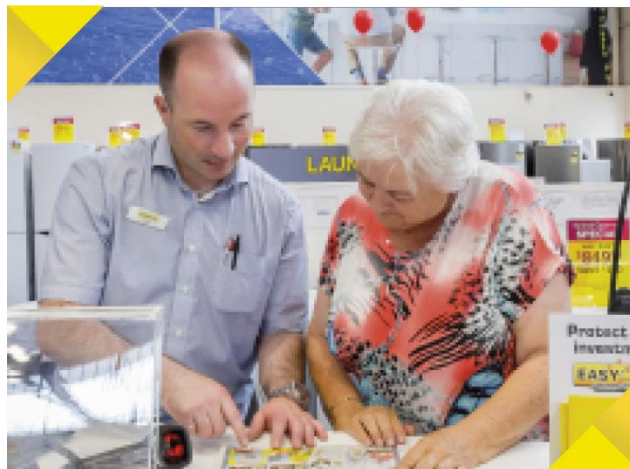
# PROMOTION SEEKING NEW WAYS TO CONNECT

- Technological advancement has changed media consumption patterns
  - Traditional media is less relevant
  - Social media/online and paid search is more effective





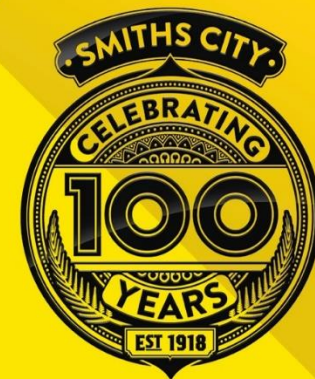
# CUSTOMER EXPERIENCE DELIVERING ATMOSPHERE AND THEATRE







**Celia Mearns**  
Chief Financial  
Officer





# PROVISIONS WEIGH ON FY2018 EARNINGS

<b>Profit and loss</b> Year to 30 April	<b>2018</b> \$M	<b>2017</b> \$M
Revenue	215.9	227.4
Same store sales	198.6	204.0
Trading profit/(loss)	-9.9	2.0
Profit before tax	-9.9	2.0
Taxation	2.7	0.4
Profit for the year	-7.2	2.4

- Revenue falls 5% amid tough trading conditions
  - Retail sales down 4.7% to \$207.9m
  - Finance revenue down 13.0% to \$8.0m but earnings partially offset retail losses
- Expenses were held steady
- One off abnormal adjustments of \$6.9m
  - Onerous lease provision \$4.9m
  - Employment Court provision of \$1.5m

# CASHFLOWS SUPPORTED BY BORROWINGS

Cashflow Year to 30 April	2018 \$M	2017 \$M
Net operating cashflow	-1.4	6.8
Net investing cashflow	-10.1	1.2
Net financing cashflow	5.7	-4.7
Net cashflow	-5.8	3.3
Year-end cash and cash equivalents	6.2	12.0

- Cash outflow from operating activities of \$1.4m
  - Performance dominated by weaker trading in finance and retail
- Investment of \$10.1m
  - Plant and equipment including store refurbishments
  - Increase in finance debtor ledger
- Financing cashflows
  - Borrowings \$7.6m
  - Dividend payments \$1.9m



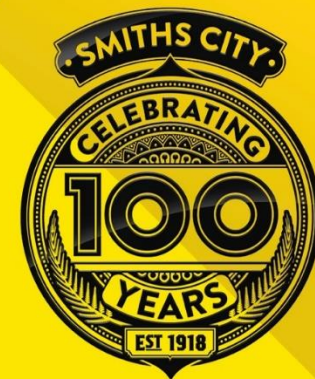
# BALANCE SHEET STRONG

<b>Balance sheet</b> Year to 30 April	<b>2018</b> \$M	<b>2017</b> \$M
Cash and cash equivalents	6.2	12.0
Trade and other receivables	14.3	10.1
Inventory	30.2	36.3
Finance company receivables	68.2	63.1
Other assets	16.6	11.7
<b>Total assets</b>	<b>135.5</b>	<b>133.2</b>
Finance business borrowings	60.9	53.3
Other liabilities	30.3	27.0
<b>Total liabilities</b>	<b>91.2</b>	<b>80.3</b>
Total equity	44.3	52.9

- Cash and cash equivalents of \$6.2m and \$33.9m of retained earnings
- Net interest bearing debt of \$54.7m all covered by finance company receivables
- Gearing (net debt to total assets) rises to 40.4% from 31.0% the same time a year ago
- Working capital down by \$5.8m
  - Inventory down \$6.1m
  - Other liabilities increases as a result of onerous lease and provisions of \$6.9m



**Alastair Kerr**  
Chair





# SUMMARY AND OUTLOOK

## Planning for the next 100 years

- Endured tough trading conditions in the 2018 financial year
- New initiatives to drive trading improvements in the current financial year
  - Investment in the brand and systems
  - Improve the customer experience in the store, online and after sale.
  - Continue to build a high-performance culture in the organisation

## Outlook

- Trading has been volatile and the housing market, a key driver of demand, remains muted despite rising housing affordability.
- But we have been lifted by the success of our centenary celebrations, the recent strong growth online channel and 'green shoots' of evidence that performance improvement initiatives are delivering results.





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