

## **Chairman's Review (on behalf of all directors) –**

### **Annual Meeting 2014**

Firstly thank you for joining us today at our 13<sup>th</sup> Annual Meeting.

Today is our opportunity to present to you, our shareholders, your Directors' Reports on the financial and operational performance of Briscoe Group Limited for the 52 week period ended 26 January 2014.

In addition however we want to take this opportunity to provide you with an overview of the Company's operations and the Board's views as to our continued roll-out given the future trading environment.

The 2013/14 financial year result posted for the year ended 26 January 2014 represented another record profit produced by the Group, in fact, our third consecutive year of producing a record bottom line profit and particularly pleasing to achieve this in a year of such mixed results posted by retailers in both New Zealand and Australia.

The continued strength of Rebel Sport is also particularly pleasing with an increase over last year's Earnings before interest and tax (EBIT) result of 22%. Sales growth and margin expansion was achieved despite increased pressures due to new competitors to the market as well as the ever increasing interest in web-based offers.

The other important pillar to Briscoe Group is of course, the iconic Briscoes Homeware network of stores which also continues to produce impressive growth despite operating in a sector which remains fiercely competitive. Through a combination of astute buying and innovative product selection we believe Briscoes Homeware is a formidable house of quality international and owned brands which are widely respected and trusted.

This overall consistency in profit growth doesn't just happen by chance and the Board would like to acknowledge the significant contribution from all employees and in particular the executive team which is constantly challenging itself for continuous improvement and innovation across all facets of the business.

As a result of a management restructure last year all parts of the business with the exception of HR, now report via either, Geoff Scowcroft as CFO or Pete Buriin as COO. HR continues to report directly to the Managing Director. This relatively flat and lean organisational structure provides an efficient and flexible platform from which the Company can and does operate most effectively.

Another highlight of the year was the performance of the Group's online business with a positive bottom line being achieved in only its second full year of operation. We see massive potential in further developing our online capabilities and recognise how critical it is for in-store and online shopping to seamlessly co-exist as more and more shoppers switch with ease between these different modes of retail.

Our first quarter results for the current year 2014/15, released earlier this month, were very pleasing. Solid growth across all key performance indicators is a fantastic way to start the new financial year and while we are proud of what has been achieved to date, your directors and senior management are far from complacent. There is still much to do, but we

believe we have strong foundations in place from which the Group can develop and prosper further.

The Group remains in a very strong financial position with an \$85 million cash balance reported at year-end. Indeed with no debt and a strong cash balance it continues to be favourably positioned to take advantage of investment opportunities should they arise as well as maximising organic growth opportunities that we believe would improve shareholder wealth. It is important however, to consider this cash balance in the context of the relatively early year-end cut-off date of 26 January 2014. As at this date approximately \$16 million of creditor payments were included in the trade payables balance, which were subsequently paid within 5 days of balance date. In addition to this, GST of \$7 million was paid on 28 January 2014 and \$5 million for property transaction settlements was made on 13 February 2014.

The Board is keen to pursue further retail growth opportunities and to extend the Group's reach into new geographical areas. Opportunities for further expansion through acquisitions, store rollout or store reconfiguration will continue to be evaluated on the basis of their

potential to add value to Briscoe Group and its shareholders. We continue to be of the view that single stream retail such as we have focussed on with homeware and sporting goods is a more attractive investment than the department store model. This approach, supported by strong omni-channel options for our customers does, we believe, afford the best investment returns.

### **Financial performance for the 2013-14 Year:**

Sales revenue was \$483.57 million, compared with \$452.70 million previously. On a same-store basis, sales increased for the year by 5.2 % over 2012-13.

Gross profit increased from \$175.94 million to \$186.17 million, equating to a gross profit margin of 38.5 % compared with 38.9 % for the previous year. A slight decrease in gross margin %, reflecting the extraordinarily challenging beginning to the year as a result of the very late start to the winter category sales and also the continued competitiveness of the market throughout the year.

Net profit after tax (NPAT) was \$33.58 million, compared to the \$30.47 for last year, an improvement of 10.2 %.

These results were for the 52 week period from 28 January 2013 to 26 January 2014.

Inventories totalled \$69.31 million at year end, being \$4.74 million higher than the \$64.57 million reported for last year, reflecting the additional Briscoes Homeware store opened in Kerikeri, increased stockholdings to satisfy online sales increases and increased levels of product directly imported by the Group.

Net cash inflows from operating activities were \$46.09 million, \$14.68million above those of last year, primarily as a result of increased sales volume and the timing of creditor payments at year-end.

Net cash outflows from investing activities were \$16.17 million reflecting investment made in property transactions, store fit-outs and refurbishments during the year.

**Dividend:**

The directors as you are aware resolved to pay a final dividend of 8.00 cents per share (cps), fully imputed. When added to the interim dividend of 4.50 cps, that brought the total dividend for the year to 12.50 cps, representing 80% of the Group's tax paid earnings. During the last four years the Group has paid out 80% of tax paid earnings in normal dividends and 99% when the special dividend paid in June 2012 is included.

We are always testing our strategies and decisions in terms of "what is best for the company and our shareholders". As well as for operational matters, this process and discipline is central to the assessments we make from time to time about distributions to shareholders by way of regular dividends or special capital distributions, both of which can also be affected by the pursuit of growth opportunities for the Company. We expect to continue with these criteria and balances in the formulation of our strategies and in our decision making.

## **Executive Share Option Plan:**

The Board continues to be of the view that all shareholders benefit from the issue to key senior executives of long-term, appropriately-priced share options that crystallise only on delivery of increased shareholder value. In 2003 the Group established an Executive Share Option Plan. The Board intends to issue up to a further 1,700,000 options in the current 2014-15 financial year. This will result in the total number of share options issued under the scheme since its inception and still exercisable being equivalent to 2.9 % of the current issued share capital.

The first five tranches of options, issued between 2003 and 2007 lapsed with 432,500 options being exercised. The sixth and seventh tranches have also now expired with 2,359,000 options being exercised from the original 2,990,000 options issued from these 2 tranches.

The eighth tranche became exercisable at a price of \$1.30 each from 27 October 2013 and of the 1,505,000 options issued in that tranche we are pleased to report that 1,095,000 have been exercised to date. The holders have until 26 October 2014 to exercise their remaining options.

It is our understanding that a good proportion of these shares have been retained by the employees since exercising.

Disclosures will continue to be made in relation to the share options issued by the Group as and when options are exercised or lapse.

### **Community Sponsorship:**

We are proud to be a key partner of *Cure Kids* and believe it's important to put our support and resources behind a cause that fits our values. To date we have raised in excess of \$3.0 million to help them fund leading-edge research to enhance the quality of life for thousands of Kiwi children and their families.

Alaister Wall continues as a director of *Cure Kids*, with support for the charity also coming from throughout the Group and from Group suppliers and other parties we work with.

In addition to our alignment with Cure Kids we support a wide variety of local community based charities, sports clubs and other initiatives by donating product to support fundraising efforts.

As a company we are astutely aware of the responsibilities of corporate citizenship and recognise the appropriateness of an organisation such as ours giving back to the community of New Zealand on whom we are so reliant.

To celebrate 150 years of trading in New Zealand, Briscoe Group in conjunction with the RA Duke Trust has established a scholarship fund to encourage tertiary level study for eligible staff and their children.

During the year the first three scholarships were awarded. These were won by regional store team members from Porirua, Masterton and Napier.

It is our vision that the Briscoe Group Scholarship will continue the strong tradition Briscoes has in supporting community causes by

encouraging employees and their children to up-skill and fulfil their educational ambitions.

In addition to the above scholarships to assist with tertiary studies, Briscoe Group is also assisting for the first time this year, 8 current employees commence studies towards a Diploma of Retail Studies through AUT.

Briscoes On-Line Training initiative (or “**BOLT**” as it is known) has also been enthusiastically supported with 87% of our store retail teams having now fully completed the initial 3 month module. “**BOLT**” is an in-house developed web-based training programme which covers all aspects of retail operations.

### **Directors, Management and Staff:**

In addition to participating in formal monthly Board meetings throughout the year, the directors attended other meetings of directors and regular meetings of the Board’s Audit and Human Resources Committees.

You will recall that at last year's Annual Meeting I confirmed the Board's desire to appoint another director to the Board and outlined the attributes the Board considered important for another director to possess including; an understanding of the New Zealand retail environment, relevant management and governance experience and preferably a knowledge of multi-channel retailing. We are a small team and ensuring that as a Board we have complementary skills and an ability to work closely together is obviously critical.

On 21 August last year I was delighted to announce the appointment of Mary Devine as an additional independent Non-Executive Director of the Company.

Mary is a high calibre corporate director and her experience (including as a driving force behind developing EziBuy as a multi-channel retailer with significant Australasian presence is already proving to be extremely valuable to the Group.

As part of the formalities of this meeting you will hear from Mary as she seeks to be reappointed to the Board via shareholder approval.

On behalf of my fellow directors, I wish to acknowledge the enormous contributions of all employees to the Group's performance during the year. Their contributions are sincerely appreciated.