



Managing Director's Address to the Annual Meeting

24 May 2018

Thanks Rosanne.

Looking back at 2017

I'm going to start by taking a look at the year just gone, and then I'll talk about the work we're doing on various fronts to ensure the business remains in very good shape to meet the challenges and opportunities ahead of us.

Financial Performance

It was very pleasing to see another year of sales growth. Total sales were up by 3.5 percent to \$603.1 million – and great to surpass \$600 million in revenue for the first time, same-store sales grew by 3.1 percent. Our online business grew sales by more than 30 percent.

Net profit after tax (NPAT) was \$61.3 million. 3.2 percent up on \$59.4 million in the previous year.

For context, the previous year's NPAT of \$59.4 million had included one-off benefits totalling \$2.7 million from property sales in Hastings. Adjusting for those, the underlying increase in the latest year was 8.2 percent.

Earnings before interest and taxation grew by 4.4 percent to \$83.4.

There was a small decrease in gross profit margin, from 41.1 percent to 40.5 percent, as a function of intense competition across the retail sector and competing claims on the consumer dollar.

As Rosanne has already outlined, there were quite a few interesting challenges to overcome and those were generally dealt with successfully. The results can be seen as a good reflection of our determination to provide customers with an outstanding shopping experience, in-store and/or online, together with a very tight focus on inventory management and cost control. At the sharp end, our in-store and support teams have combined to execute our plans and I am really grateful for their efforts.

Our store network

The growth and enhancement of our store network remained a priority, with \$14 million invested to that end. That included \$5.4 million to develop properties in Wellington City, Petone, Mt Albert and Silverdale; \$6.4 million to fit out and refurbish new and upgraded stores; and more than \$2 million in upgraded security camera systems, online platform improvements, enhancements to system software and hardware upgrades.

The various upgrades were well-canvassed in our Annual Report, so I'll just summarise them today:

- The closure of Briscoes Homeware stores at Lower Hutt and Petone and the Rebel Sport store in Lower Hutt; and their replacement by new Briscoes Homeware and Rebel Sport stores as part of our development at Petone
- New Briscoes Homeware stores in Rangiora and Glenfield
- The refitting of Briscoes Homeware stores in Botany and Henderson
- The extension of the Briscoe Homeware Takanini store to improve the shopping environment and match the demand anticipated from residential developments currently under way
- Extension of the Lyall Bay Rebel Sport store, which allowed a significant extension in its product range
- The refit of Rebel Sport Albany, producing a great improvement in the “look and feel” of the store.

Just into this current financial year we opened a Rebel Sport store in Kerikeri, next to Briscoes Homeware, allowing the sharing of warehousing and back-office facilities. We intend to complete similar projects in Tauranga and Rotorua. The work planned for Rotorua will also improve fulfilment capability for our online platform in the Central North Island.

We are well advanced with plans to relocate Briscoes Homeware in Northlands, in Christchurch; and to add a new Rebel Sport store to that location. We are currently considering refits at a number of stores including Rebel Sport at the Atrium, in Auckland City, and in Manukau; and Briscoes Homeware at Manukau and Lyall Bay.

Earthquake strengthening work will give us the opportunity to refresh the Briscoes Homeware and Rebel Sport stores in New Plymouth; while a planned upgrade to the lighting at Rebel Sport Botany will both improve the look of the store and reduce power usage.

We installed new security cameras in a number of stores during the past year and we expect to complete the upgrade across our whole network by the end of calendar 2018.

Issues and challenges

As Rosanne has said, there is a lot happening in retail, both in New Zealand and internationally. While the competitive forces are both varied and significant, this is actually a good thing for us – it sharpens our focus on what we are doing in the business and what we need to do to maintain the strength of our market position.

Our major focus is on making it easy and attractive for our customers to do business with us. That means providing them with the opportunity to purchase in the way that suits them, whether that’s in-store or online, or perhaps a combination of both.

Over time, it seems likely that the number of customers who purchase only in-store or only online will decline, and the numbers we refer to as “multi-channel” customers will increase. The ability to serve our customers well on both our physical and online platforms is a source of competitive advantage for us. The work we have been doing to build our online platform, which has been very successful, should be seen in this context. The online channel now represents around 8 percent of our total revenue.

We are currently engaged in a full upgrade of our online platform to make the shopping experience even more enjoyable. That is a major design and implementation exercise – it’s going well and we expect to launch the new platform before the end of the year. In the back room, so to speak, new fulfilment hubs in Whanganui and Hamilton are already up and running.

We are also expanding the click-and-collect option to more stores after a successful trial through the Botany homeware store. Click-and-collect allows customers to order online and pick up in-store. While this might seem counter-intuitive at first, it is a significant growth area and one we are obviously keen to facilitate.

The growth in online trading has been much discussed for several years now, and you will most likely be aware that Amazon has now established facilities in Australia, which of course has potential for flow-on effects in New Zealand. We have not seen any substantial effect in New Zealand to date, but we have no doubt that Amazon's presence will grow. Beyond that, other platforms might also seek to expand in this part of the world.

We're not, and never will be, complacent about that. We will be keen observers of their development and our focus on building our own online presence will continue. That's all in the context of enhancing the relationships we have with our customers, and doing so in a way that builds on our commitment to excellent service, to deepen our knowledge of our customers and their needs, and our determination to make quality homeware products and sporting goods available to a broad range of customers.

We were pleased to see the government assisting to level the playing field for locally-based retailers by announcing its intention to remove the gst-free status of imported goods under \$400.

The case for doing this had become increasingly obvious. With the change due to take effect in October 2019, I doubt we will see a measurable effect on our business in less than a couple of years. Nevertheless, it is a welcome development that removes a competitive advantage for overseas-based retailers and protects the New Zealand tax system at the same time.

Another recent regulatory development is the continued increase in the minimum wage rate and the government's signal that it wants to see a rate of \$20 per hour by 2020. We are on track to deliver that within our business, from a starting point that we are already above the minimum level for all employees.

Our view of the impact on the business is mixed – we recognise that wage inflation represents extra cost and, of course, we are concerned to manage all costs as well as possible. On the other hand, logic would suggest that the increase will lift the potential for discretionary spending by households, and we would like to think that Briscoes and Rebel Sport would see their share of that effect. Even that's not simple, as the effect on spending will be influenced in turn by factors like consumer confidence and competition.

The broader topic of employee entitlements appears to be an issue for numerous businesses across many sectors.

Some of you may have seen recent media articles relating to paying people correctly for morning meetings, end of day duties and holiday pay. We have given a commitment to our employees that they will be paid for the work they have undertaken. Like many other businesses we are working through the process to ensure we achieve this commitment.

At this point we do not believe the impact of the exercises being carried out above to be material, however, we will of course provide updates in compliance with the NZX continuous disclosure rules.

The basics

At the end of the day, our focus always returns to the theme of doing the basics right. That starts with understanding what the customer wants and doesn't want. The SmartFeedback system in our stores allows the customer to comment directly, and we gain extra insight through the analysis of purchasing data from our stores and our online platform.

Marketing, sponsorship and merchandising are all part of what is a constantly evolving mix. Marketing is the major component as measured in dollars; and, as I'm sure you will be aware, it is subject to prolific change in technologies, media channels and creative approaches.

As part of our response to those trends we are elevating the role of marketing within our senior management team, so it will be closely aligned with group strategy and thus ideally-placed to drive our performance. We have recently commissioned a search for a new role of General Manager, Marketing and Strategy and we will report on the outcome of that process in due course.

The basics also include ensuring we provide access to brands that customers know and trust. In Rebel Sport that means famous names including adidas, Asics, Berlei, Canterbury, Everlast, Gilbert, Head, Hi Tec, Icebreaker, Jockey, Kookabura, Mizuno, New Balance, Nike, Oakley, Prince and Puma. In Briscoes Homeware it means Bodum, Brabantia, Breville, Churchill, Cloud 9, De Longhi, Fieldcrest, George Foreman, Goldair, Gordon Ramsay, Habitat, Hampton and Mason, Jamie Oliver, Joseph and Joseph, Royal Doulton, Panasonic, Russell Hobbs and others. Part of our job is a continual search and review process to ensure we stay ahead of the pack in this aspect of quality product offering.

We are also continuously engaged in the search for improved logistics – increasing the speed with which we move products from the supplier to the customer, and managing our inventory levels so that we make our products available where they need to be while managing the cost of doing so. It was very pleasing to achieve a marked reduction in inventory in the latest year – to \$74.5 million compared with \$78.9 million at the previous year-end.

Sustainability

Those who attended last year's annual meeting will recall that we heard from one of our top-performing business managers, Sheryn Tamblyn, who manages our Porirua Profit Centre. I know the opportunity to gain further insight into that aspect of our operations was much appreciated. Continuing that approach, we have asked our GM Store Development, Nick Turner, to join us today to talk about the steps we are taking to maximise the environmental and social sustainability of the business.

Nick, welcome... the floor is yours.

Presentation Nick Turner – attached separately.

Thanks Nick – that was an interesting and informative insight into a topic of very high importance for us.

We are fortunate to have people of Nick's calibre working in our business.

The current year

It now remains for me to update you on progress in the current year and the factors that will have an influence on our performance.

The growth in our first quarter results was slightly softer than in the first quarter of the previous year. Having said that, there were some significant seasonal factors weighing on the result for Briscoes Homeware, in particular. The previous first quarter was very strong for manchester and furnishings, overall homeware sales increased by 8.8 percent. It was always going to be difficult to grow strongly off that high base. Also, the trading patterns were very different, with Easter falling earlier than last year and outside the school holidays.

Balancing that, sporting goods sales remained very strong and the Group result for the same three months was acceptable in both absolute and same-store terms.

To the extent they are predictable, our expectation is for economic growth and consumer spending this year to be broadly consistent with those of recent years.

We will be watching for the effect of the competitive challenges posed by new and emerging retailers; and by online platforms as I've already indicated.

First and foremost, we are focused on what we can control – the fundamentals of providing value for customers and improving our systems, our store network and our online platform. We will continue to invest in all of those in the interests of not just maintaining, but building, our competitive advantage.

As ever, I am excited by the opportunities ahead of us. I have great confidence in our people and in the path we are taking to strengthen our position as New Zealand's leading retailer of both homeware and sporting goods.

Thank-you.