



**Managing Director's Address to the Annual Meeting of Shareholders
22 May 2019**

Thanks Rosanne and welcome everybody – it's great to see yet another strong turnout for the annual meeting.

There's a lot to talk about. I'm going to start with a summary of our financial results, and then I want to cover developments within the business – we're working on a number of fronts to build on our best attributes and focus on the things that can help us to sustain a high level of operating performance. I'll come back to the detail of that in a few minutes.

Financial results

It was great to produce another year of sales growth in a retail environment that, as Rosanne has already noted, tested retailers right across the board. Total sales were up by almost 4½% to just under \$632 million, while same-store sales grew by 3.1% (that is, 3.4% for the homeware segment and 2.5% for sporting goods). Our online business continued to grow rapidly – around 27% – in what is proving to be a very successful channel for us and now represents over 10% of total Group sales.

Gross margins also improved – in dollar terms, by just over 4.7% to \$253 million; and from just under 40% to just over that number as a percentage of sales.

Earnings before interest and taxation were \$86.00 million, an increase of just under 3.2%.

Net profit after tax was \$63 million, up by around 3.4%.

I think you'll agree, those are pretty solid numbers which compare very favourably against many other retailers.

The financial results reflected our close attention to the fundamentals of the business in what was an intensely competitive trading environment. Rosanne has already stated the Board's appreciation of the team and individual performance levels across the Group. I certainly want to add my own note of thanks to all our people, in-store and in support roles.

Operating conditions

Retail is obviously very sensitive to the overall state of the economy, but also to the way people feel about their own prospects in that context. It's very much a mix of influences, and they seldom all point in the same direction at the same time.

The New Zealand economic fundamentals were and are sound, with continuing GDP growth. On the other hand, there were a couple of factors taking the edge off consumer confidence, and when that happens shoppers become even more value-conscious than usual. Meanwhile there were some cost increases from factors that we can't control... and when you have that combination of trends you obviously have downward pressure on margins.

The spike in petrol prices during the year affected both retail spending and costs. The effect was, of course, deepened in our largest market by the imposition of the Auckland regional fuel tax.

Retail spending was also affected by industrial action across a number of sectors, which we think offset any benefit to consumer sentiment from the legislated increase in the minimum wage taking place over the years leading up to 2021. The minimum wage rise also represents a significant cost increase within the business, in the order of 6 to 7% per year over that period, although we have been implementing it from a starting point where we were already above the minimum level for all employees.

Our store network

We had another busy year in our store development programme, investing around \$5.5 million to open new stores, or to renovate or improve existing stores. By the end of the year the homewares sector had 46 bricks and mortar stores including 13 fulfilment hubs, and there were 38 in the sporting goods sector including nine fulfilment hubs.

We completed a full refurbishment of Briscoes Homeware Rotorua, and in doing so established an online fulfilment hub for Briscoes and Rebel Sport as a joint back-of-house facility.

In Christchurch, we relocated Briscoes Northlands to a purpose-built property in Papanui, some 100 metres up the road, and we opened a new Rebel Sport store adjacent to it. This major development added significant retail and stockroom space for Briscoes and increased the presence of Rebel Sport in the Christchurch catchment. The joint back-of-house area also contains a fulfilment hub for both brands.

We made good progress on replacing the Group's support office in Taylors Road, Auckland. The relocation is scheduled for around July/August this year.

There were some delays, for external reasons, to projects at Silverdale, Tauranga, Nelson and Napier. These are still alive with the latter 3 expected to be completed by the end of quarter one next year.

That's the high end of the programme. There is always a lot of work going on at the other end as well, such as planning for projects to move into during the following year, store-relays, lighting upgrades, security camera upgrades and so on.

On that note, it's worth mentioning that we are targeting to complete a number of large projects during the current year, including:

- The full refurbishment of Briscoes and Rebel Sport in New Plymouth
- The opening of a new Rebel Sport in the redeveloped 277 complex in Newmarket, Auckland
- The refurbishment of a Briscoes and Rebel Sport site at Tauranga, along with the creation of an enlarged common back-of-house facility

- The relocation of Briscoes Riccarton to a new site at Bush Inn, Christchurch
- The opening of new Briscoes and Rebel Sport stores at Carr Road, Mount Roskill in Auckland

Just to round off this theme... you will have noticed an increasing emphasis on the establishment or enlargement of fulfilment hubs. This is about optimising our total retail platform – in bricks and mortar and online. New fulfilment hubs improve our service level and our costs as the online sales channel grows at a rapid rate.

Issues and challenges

This is a very dynamic era for retail – one in which we are dealing with shifts in the profile of our customers, in trading patterns across the year and at traditional peak periods, in the expectations that customers have, and in the way they want to do business with us. We really need to be on our game to keep up, and to make the changes and improvements needed for us to remain at the forefront of New Zealand retail.

I have spoken at a number of annual meetings about changes in the timing of retail spending through the year. This was a factor yet again last year, with summer trading starting quite late and a further concentration of sales into a smaller number of promotional events like Black Friday and Boxing Day.

The challenge we have is to gear up for the peaks while maintaining focus and performance during the periods between them – maintaining store standards and product availability, fulfilling online orders to our normal service levels, and so on. We have continued to adapt our operational and buying strategies for that purpose, and that was a key factor in the improvement in gross margin during the latest year. We continue to learn about this – from looking closely at the changes in the trading patterns themselves, and by analysing our own response – and we hope to further improve our performance in the future.

Customer demographics and shopping preferences are certainly evolving – with respect to products, channels, use of technology, environmental consciousness and other factors.

Our focus remains on making it easy and attractive for shoppers to do business with us – providing best brands at the best prices, and providing the opportunity for people to purchase in the way that suits them best, at any particular time. We believe this is the best frame of reference for us to compete, and adapt to the challenges we find in the marketplace.

The growth of our online platform is a key part of this approach. We now live in the age of the online customer. That of course does not mean online-only – it is clear that web browsing also drives customers to purchase in-store. As I have said previously, 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 increasingly become the norm.

For those who purchase online, we are well under way with upgrades that will make that easier, and we continue to improve the way we assemble and deliver orders. We anticipate launching the new online platform during the current year, and we will also continue to add new fulfilment hubs.

Our Click and Collect trial continues to show promise. We are working to improve processes and procedures to support the rollout of more Click and Collect stores during the year ahead.

Understanding what our customers want is another key issue for us. We are looking to the creative use of information gathered in the course of everyday trading to achieve marketing efficiencies and promote customer engagement. Our understanding improves as we get better at analysing data and purchasing decisions.

In a market where media consumption is changing rapidly, the continuous review of media and messages to improve our reach to target audiences is critical. Meanwhile, we will continue to use the insights gained from data to ensure product offers, promotions, store design and layouts appeal to our customers.

Doing the basics

The latest year saw us up the intensity of our internal focus on the fundamentals of the business. To simplify ... that focus on a few key items, being:

- Stock – driving it out of the stockroom and on to the shop floor
- Service – greeting customers well and using product knowledge and general smarts to help them find what they're after
- Standards – maintaining and presenting our stores in a form that is attractive and comfortable for customers
- Our people – managing with respect and fairness, setting clear expectations, offering training & development opportunities, looking after safety & wellbeing, and communicating openly
- Administrative excellence – in the supply chain, store management, stockrooms, fulfilment, shop counters and so on

We look to the fundamentals of our business for the opportunity to improve our offering.

Leadership changes

We had a couple of significant leadership changes during the year, with the retirement of our Chief Operating Officer, Pete Buriin; and the resignation of the General Manager Retail Operations, Stephen Jones. Pete was a key part of our senior management team for more than 20 years, and Stephen since 2017.

Andrew Scott, who has an impressive retail career in a number of countries, has been appointed to the COO role and joins us early July, and Nick Turner, previously our GM Store Development, has been appointed to the Retail Operations role.

The current year

Now to the outlook for the year out to January 2020...

As noted by Rosanne, a lot of retailers struggled to reach sales targets in the first quarter. I might add, that concern about consumer confidence and increasing costs is a common theme amongst those I have spoken to. What that means is continuing pressure on sales and margins – we will be no exception to that, but we will be fighting these trends using the weapons I have outlined today.

We recently reported a 2.6% rise in sales, unaudited, for the first three months of our year, or 2.1% on a same-store basis. Trading patterns were significantly different to those for the same period of last year, with Easter falling later and much closer to Anzac Day, which compressed our opportunities for promotional activity. In context we were relatively pleased with the first quarter sales performance and there's a long way to go, but with consumer confidence under pressure, an uncertain housing market and the relentless retail environment, as mentioned in our release a few weeks ago, our ability to grow profit in the short-term is also under pressure.

We will continue – if anything, we will further intensify – our strong focus on the fundamentals of the business.

We maintain our focus on the wide range of programmes in place to develop and care for our people. This year, a number of our senior retail managers have commenced study towards MBA degrees and we are increasing the content on our online learning platform to spread product knowledge across the wider team. Our commitment to safety and wellbeing is maintained through our focus on manual handling and traffic management and enhanced by our investment in a new health and safety system *ecoPortal*. Our implementation of *Cornerstone on Demand* will improve our recruitment, onboarding and performance management. All of these contribute to a competent, confident and committed team.

Overall, I think I have given you a picture of a business that is in pretty good spirit, albeit with significant challenges ongoing. But along with the challenges there is opportunity ahead of us, and I remain confident of our ability to step up and further strengthen our leadership position.

Thank you.