GODFREYS GROUP LIMITED
(ASX: GFY)

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2017 Annual General Meeting – Chairman's Address

The 2017 financial year has been a year where we have re-focused on what has made our business successful over the Company's long history. We remain well positioned as a vacuum and cleaning specialist in the Australian and New Zealand market, with our large retail footprint including 222 retail stores, 100 of which are franchises.

Godfreys provides a broad range of products and services across domestic and commercial cleaning categories. Drivers of market growth continue to be growth in total households, changing consumer preferences and product innovation. However, macro business conditions, and those in the retail sector, remain challenging.

At last year's Annual General Meeting, we announced a restructure of our retail store portfolio to increase the number of franchise stores in our network. Pleasingly, the conversion of franchise stores from Company owned stores is progressing well. During the financial year 22 stores were converted to franchise stores with strong demand accelerating our conversion plans.

The conversions to franchise stores provides positive financial outcomes for Godfreys with the recognition of upfront franchise fees on the conversion of a store, and the ongoing benefit from generally higher EBITDA and EBITDA margins under the franchise model. We also benefit from a reduced requirement for inventory and capital expenditure.

After a period of relative underperformance, Godfreys has looked to stabilise its business performance by focusing on the basics.

We have adjusted our product mix and improved sales operations, marketing, inventory management and store composition. Some of the positive business changes include:

- Introducing a range of new products and supporting revenue growth in popular categories like 'Stick Vacs' which grew by 75%;
- Commencing a physical refresh of our retail stores;
- Updating our incentives framework to encourage the achievement of productivity goals, team sales targets and individual outcomes;
- Enhancing the efficiency and effectiveness of our advertising due to greater in-house control and lower production costs; and

- Leveraging our multi-channel sales capabilities by improving cohesion between 'online' and physical channels by offering "click and collect" and "from warehouse to your house" capabilities.

We reported a stabilisation in the decline of same-store sales in the second half of the year, as the benefit from these changes begin to be realised.

From financial perspective, the Company generated $14.1 million of underlying EBITDA on sales revenue of $174.1 million.

Due to a non-cash accounting impairment of goodwill of $24 million, the Company reported a statutory net loss after tax of $18.4 million. Excluding this impairment, and other business restructuring costs, the underlying result was a net profit after tax of $5.9 million. Operating cashflows of $11.3 million were generated during the financial year which were used to pay down debt.

In May 2017, we established a new long-term $30 million senior debt facility on favourable terms with 1918 Finance Pty Ltd, an entity associated with Arcade Finance Pty Ltd, a substantial shareholder in Godfreys. The new facility replaced the senior debt facility funded by the Commonwealth Bank of Australia. The new facility is for an initial three-year term to May 2020. It provides working capital for Godfreys' ongoing operations and secures access to competitively priced, long-term funding. It contains covenants typically expected of a retail finance facility. Our net debt at 30 June 2017 was $16.5 million, down from $21.6 million in June last year, and represents a gearing level of 16%.

This provides the Company with a solid foundation to implement the operational improvements needed, as well as providing opportunities for future growth.

The Directors declared an unfranked final dividend of 2.5 cents per share, in addition to the interim dividend of 2.5 cents per share, also unfranked. The combined dividends of 5.0 cents per share represents a 35% payout of the Company's underlying net profit after tax in FY2017.

The lower dividend payment and payout ratio in FY2017 reflects the careful consideration by the Board of the need to strike an appropriate balance between delivering returns to shareholders in the short term by way of dividend payments and ensuring the Company has adequate funds to pursue improvement opportunities within the business.

As we look forward to the 2018 financial year, we expect to see improved performance across our retail network and wholesale business, although the contribution of franchise fees from our franchise strategy is expected to reduce from fewer and lower value conversions. In all, underlying EBITDA is expected to be at similar levels to FY17.

I would like to thank all of my colleagues within Godfreys for their dedication and hard work as we continue to improve our business. I also thank our suppliers, our customers, and you, our shareholders, for your continued support.

Finally, I would like to inform shareholders that earlier today at the Godfreys' Board meeting I informed the Board that after seven years as Chairman of the Godfreys' business, I have decided to step down as Chairman and resign as a Director effective at the end of this calendar year.

Since I took over as Chairman, I have steered the Godfreys' business through a number of challenges, through persistence and sound financial reengineering, the Board was able to reinvigorate the retail side of the business and restructure its finances to give the Company a solid foundation to regrow.

After a period of consolidation, the Company then grew strongly and subsequently the owners decided to List the Company on the Australian Securities Exchange in November 2014. Since the successful Listing, the Company has had some outstanding successes and in the face of increasing competition and a tough retail environment, some major challenges. Nonetheless, as stated earlier, the Company's core business remains strong, and with a senior management team that is as strong as it's been in my seven years with the Company, I am very confident of continued success.

I have recommended to the Board that we immediately start a search for at least two new Board members; the new Chair will then be elected from that group of directors.

On behalf of the Board, thank you for your interest in Godfreys and participating in today's 2017 Annual General Meeting.

Rod Walker
Chairman

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About Godfreys

Godfreys Group (ASX: GFY) listed on the ASX in 2014 and is Australia's largest speciality retailer of domestic and commercial floorcare and associated cleaning products, offering an extensive range of company-owned brands, an exclusively licensed brand (Hoover) and a number of third party brands. Godfreys is regarded by Australians as the 'experts' in vacuum cleaners and cleaning products, accommodating consumers at all price points. Godfreys has its head office and a company-operated warehouse located in Victoria. Godfreys' multichannel offering is distributed via over 200 branded retail stores located in standalone 'superstores', and shopping centres and retail shopping strips.