

## ASX Announcement

### Dick Smith Holdings Limited 2015 AGM: Chairman's Address

Good morning Ladies and Gentlemen and welcome to the 2015 Dick Smith Annual General Meeting.

I would like to take this opportunity to introduce your Directors. On my left is your Managing Director & CEO, Nicholas Abboud, next to him is Jamie Tomlinson, chair of the Finance and Audit Committee, and moving down the table, Lorna Raine, head of the Remuneration and Nomination Committee, Robert Ishak, Michael Potts, your Finance Director & CFO and David Cooke, your Company Secretary. Brief bios for the Directors can be found in the Annual Report and, for those Directors nominated for election today, in the Notice of Meeting.

Also joining us today in the audience is our Auditor, Mr David White from Deloitte, who is available to answer questions about the audit of the accounts and representatives from Link Market Services, our share registry, who will supervise the conduct of the polls for the resolutions.

#### **Strategic Growth Avenues**

Two years ago, at the time of our IPO, we conveyed our strategy as becoming 'the leading consumer electronics retailer in Australia and New Zealand, assisting our customers in achieving the most from technology at the right value'.

In 2015<sup>1</sup>, our focus on the implementation of this strategy remains unwavering, with our five strategic growth initiatives of new formats, new stores, private label, online/omni-channel and cost transformation delivering sustainable improvements and positioning the company for improved future growth.

#### **New formats**

During the year we launched Move by Dick Smith at Sydney Airport's International Terminal, in partnership with one of the world's pre-eminent duty free operators. This new opportunity, catering for a wide demographic of travellers, expands the consumer reach of the Company's Dick Smith, Move and Electronics by Dick Smith within David Jones formats

#### **New stores**

Providing our customers with convenient shopping opportunities is integral to our growth strategy. Your Board believes our smaller format supports a strong store footprint across Australia and New Zealand, both regionally and with metro-based stores. With 393 locations at 28 June 2015, your board believes there are opportunities for up to 420 to 430 stores in Australia and New Zealand.

We are cognisant of the growth in online and the need to ensure adequate returns when assessing the store base. In doing so, we will not hesitate to close under-performing stores. In 2015 we opened 25 new stores and closed 8 reflecting continued striving to improve performance and returns.

## **Private Label**

Private Label has been an integral part of Dick Smith for over 45 years and continues to be a strong differentiator with consumers. During the year, we expanded the range adopting a pricing hierarchy of 'good, better, best' with the premium MOVE brand resonating with customers. Private Label presently represents over an eighth of our sales and your Directors are confident continued customer acceptance and range expansions will see further growth to above 15% of sales in the next couple of years.

## **Comprehensive omni-channel platform**

With online shopping increasingly an integral part of consumers' shopping habits, our leading online offer complements our store network, providing conveniently located and efficient Click & Collect and store fulfillment capabilities.

During 2015, customers had 8 distinct online platforms from which to purchase our product. These included the Australian and New Zealand Dick Smith transactional websites, as well as MOVE, Dick Smith stores on Westfield, eBay, Catch of the Day, David Jones and Trade Me in New Zealand.

Our extensive platform capability is integrated with a compelling distribution network. Customers can order online and collect from their most conveniently located store – all 393 of them - or arrange delivery from over 210 of our stores which have fulfillment capability.

Our distribution reach saves customers time and freight cost, whilst improving Dick Smith's store productivity and maximising our inventory utilisation.

Reflective of our capability and focus, online sales doubled in 2015 and represented over 8% of retail sales.

## **Cost transformation**

Retail in general in Australia and New Zealand remains patchy and challenging. Your Directors recognize the need to ensure the sustainability of the Company's performance requires an unwavering focus on cost efficiencies. The decision to restructure the Support Office in March was not taken lightly, but places Dick Smith in a good position going forward, with a sustainable and efficient cost base.

Our Managing Director and CEO, Nick Abboud, will highlight the performance of the Company's strategic avenues in more detail in his address.

## **Capital Management**

Although your Board recognizes our shareholders have diverse views on capital management, we have elected to maintain a strong and conservative balance sheet in view of the current trading performance.

## **2015 Financial Performance**

Financially, 2015 was a challenging year for your Company. We successfully grew sales, profits and returns despite the headwinds of softer consumer confidence and patchy trading conditions. Underlying EBITDA was \$79.8m, representing an increase of 7.3% from the pro-forma EBITDA of \$74.4m achieved last year. Net profit after tax available to shareholders (NPAT) was 3.1% higher than 2014, at \$43.4m.

Our EBITDA margin of 6.0% is comparable to the best consumer electronics retailers in the world and we believe there are still a number of significant margin expansion opportunities of which we intend to implement.

Your Directors were satisfied with the performance of the Australian operations. Strong sales growth, despite an intentional reduction in the level of non-profitable promotions in the last quarter, and tight cost control generated 22% EBITDA growth and an EBITDA margin of 6.6%. The Australian operations are indicative of the leverage your Directors are striving for in terms of sustainable performance.

New Zealand remains a 'work in progress' for Dick Smith. Challenging trading conditions throughout most of the country, a significant increase in competitive promotional activity and a one-off benefit in

last year's profit resulted in a 68% reduction in New Zealand's EBITDA to NZ\$4.4m. Whilst sales declined for the second year, the rate of decline was half that experienced the year earlier.

Your Directors believe there are opportunities for improvement in New Zealand and your Company continues to implement improvements including more local advertising, better interest free offers and an improved product range.

Cash flow during the year was impacted by the decision to avail ourselves of beneficial inventory buying opportunities. This involved the Company buying inventory earlier in the year than normal to take advantage of favourable exchange rates and product prices and resulted in the payment of this inventory before the end of the year. Your Directors anticipate improved cash conversion in 2016, despite the challenging retail environment.

Notwithstanding the cash flow impact, the Company's balance sheet remains strong.

Your Directors are pleased to declare a 5 cent per share fully franked dividend, which was paid on 30 September 2015. This dividend is consistent with the Board's policy of paying out 60-70% of profit available to shareholders and takes the dividend paid with respect to the 2015 financial profit to 12 cents per share, fully franked.

Financial performance is only part of the equation. We take our corporate and social responsibilities, including ethical trading, environmental practices and employee welfare equally as seriously.

### **Ethical Trading**

As a significant retailer of private label product, we have developed a detailed Ethical Sourcing Policy, in which the Company is committed to upholding human rights, fair working conditions and environmental protection.

Our suppliers must commit to complying with a number of requirements, many of which are drawn from the Ethical Trading Initiative and International Labour Organisation Conventions. These requirements represent minimum standards the Company will accept, based on the principles of the United Nations Universal Declaration of Human Rights.

Dick Smith conducts audits of all private label suppliers, at least annually. These audits cover requirements incorporating bribery and corruption, labour rights, freedom of association, working conditions, child labour, living wages, working hours, discrimination, harsh and inhumane treatment, entitlement to work and environmental compliance. Non-compliant suppliers are encouraged to adjust their practices to conform, within a required timeframe, with non-compliance subject to further action including supply termination. During 2015, our suppliers were in compliance.

### **Environmental practices**

Dick Smith promotes sustainable environmental practices throughout our stores and supply chain, which is embodied in our Code of Conduct. The Company endeavours to reduce the use of packaging in all products and actively encourages its suppliers to minimise primary and secondary packaging where appropriate.

Other sustainable practices include Mobile Muster, Cartridges 4 Planet Ark, store recycling, sustainable recycling of televisions and computers and energy efficient store design and membership of and compliance with the Australian Packaging Covenant.

### **Employee welfare**

Your Board understands that none of this growth would have been achievable without the hard work and dedication of our 3,300 staff. We are committed to attracting and retaining top quality staff throughout the organisation.

We are pleased that over 1,100 staff own over 8% of the company.

We are also proud that the Company achieved a lost time incident frequency rate significantly below that of the broader retail trade rate. I would like to take this opportunity to thank and commend our employees for their dedication and hard work.

Since last year's Annual General Meeting, Mr Phil Cave AO and Mr Bill Wavish have retired from the Board. Both were instrumental in the improvements enjoyed by your Company, both during its period of private equity ownership and since December 2013, as a listed company. I would like to take this opportunity to record our thanks to Phil and Bill and also to thank my fellow Board members for their support, particularly with my appointment as Chairman.

The Board extends its thanks to the Managing Director for his leadership and all Dick Smith employees for their commitment and strong contributions during what has been a challenging and intense year. We would also like to thank you, our shareholders and our suppliers and other stakeholders for your support during 2015 and look forward to it continuing in 2016.

I now invite Nick to provide additional commentary on the Company's 2015 results, the 2016 performance to date and the outlook for the Company.

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**For further information please contact:**

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<sup>1</sup> The financial year ended 28 June 2015