

Godfreys Group Limited

FY2016 Results Presentation

26 August 2016

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Contents

- ④ Results Overview
- ④ FY2016 Results Analysis
- ④ Trading Outlook
- ④ Appendices

Results Overview

Sales and Margin

- ⑥ Total Sales of \$179.3 million:
 - A decline of 0.9% on previous corresponding period ('pcp')
 - Comparable (LFL) store Sales down by 9.7% due to poor execution of the Company's response to key market trend
 - FY2016 Operating Gross Margin down by 50bps on pcp, primarily impacted by weaker AUD.

Earnings

- ⑥ Underlying EBITDA of \$17.5 million
- ⑥ Underlying NPAT of \$9.2 million
- ⑥ Underlying EPS of 22.64 cents

Reaffirm key financial results in line with revised FY2016 forecast results announced on 13 January 2016.

Results Overview

Operational

- ⑥ Appointment of retail industry veteran and former Godfreys' senior executive John Hardy, as interim Managing Director
- ⑥ Net additional 10 stores opened added to the retail network (9 Company-owned stores and 1 Franchise store)
- ⑥ Acquired established, eco-friendly New Zealand business, The Service Company Limited
- ⑥ Launched 43 new products in FY2016
- ⑥ Consolidated Service team into Altona warehouse/office in May 2016

Key Point

- ⑥ Full year underlying NPAT of \$9.2 million, in line with guidance provided on 13 January 2016.

Profit and Loss Statement

Underlying⁽¹⁾

\$ million	FY2016	FY2015	Growth %
Sales	179.3	180.9	(0.9%)
Operating gross profit	97.1	98.8	(1.8%)
<i>Operating gross profit / Sales (%)</i>	<i>54.1%</i>	<i>54.6%</i>	
Other income	5.5	4.8	14.4%
CODB	(85.1)	(80.8)	5.4%
<i>CODB / Sales (%)</i>	<i>47.5%</i>	<i>44.6%</i>	
EBITDA	17.5	22.8	(23.2%)
<i>EBITDA margin (%)</i>	<i>9.8%</i>	<i>12.6%</i>	
Depreciation	(4.3)	(3.6)	19.3%
EBIT	13.2	19.2	(31.3%)
<i>EBIT margin (%)</i>	<i>7.4%</i>	<i>10.6%</i>	
Interest	(0.9)	(3.1)	(71.4%)
PBT	12.3	16.1	(23.6%)
Tax	(3.1)	(4.6)	(32.9%)
NPAT	9.2	11.5	(19.9%)

Total Sales down by 0.9% (\$1.6 million) primarily due to poor execution of the Company's response to key market trend.

Cost of doing business increased as company store network grew. A total of 13 company-owned stores opened during FY2016.

Interest cost lower year-on-year as a result of lower debt profile.

Headline Statistics:

	FY2016	FY2015
Underlying EPS (cents per share) ⁽²⁾	22.64	28.51
Dividend (cents per share)	11.3	15.4
Total Stores	222	212

(1) See statutory to underlying Income Statement reconciliation on page 11.

(2) Underlying EPS is calculated based on an underlying NPAT of \$9.2million (2015: 11.5 million) divided by the number of shares on issue at end of year of 40,610,319 (2015: 40,298,056).

Balance Sheet

\$ million	Jun-16	Jun-15	Change
Assets			
Cash and cash equivalents	1.4	13.8	(12.3)
Trade and other receivables	5.6	5.2	0.4
Inventories	35.0	25.0	10.0
Total current assets	42.1	44.0	(1.9)
Other receivables	1.7	0.5	1.2
Property, plant and equipment	16.4	14.5	1.9
Intangible assets	96.5	91.9	4.6
Deferred tax assets	5.2	6.9	(1.7)
Total non-current assets	119.8	113.8	6.0
Total assets	161.9	157.8	4.2
Liabilities			
Trade and other payables	19.9	19.5	0.4
Other current liabilities	7.8	6.8	1.0
Total current liabilities	27.7	26.4	1.4
Interest-bearing loans and borrowings	23.0	20.0	3.0
Other liabilities	6.7	6.0	0.7
Total non-current liabilities	29.7	26.0	3.7
Total liabilities	57.4	52.4	5.1
Net assets	104.5	105.5	(0.9)
Equity			
Share capital	109.5	109.5	-
Reserves	(43.7)	(43.4)	(0.3)
Retained earnings	38.7	39.3	(0.6)
Total equity	104.5	105.5	(1.0)

Inventory increased from June 2015, over 83% of the Group's inventory is the current core range. Inventory to be reduced in FY2017 as stock sell through.

Property, plant and equipment increased as part of the rollout of 13 new retail stores during the year.

Intangibles assets increased by \$4.6 million. The increase is a result of investment in new ERP software and recognition of goodwill on the acquisition of The Service Company Limited on 29 February 2016.

Additional \$3.0 million of bank debt raised in February 2016 in order to acquire The Service Company in New Zealand.

Cash flows

\$ million	FY2016	FY2015
Cash Flows From Operating Activities		
Receipts from customers	183.1	185.8
Payments to suppliers and employees	(175.7)	(157.5)
Income tax paid	(0.7)	(1.1)
Net cash provided by operating activities	6.7	27.1
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(5.7)	(6.5)
Payment for intangible assets	(3.2)	(2.3)
Payment for acquisition of The Service Company	(3.0)	-
Interest received	0.1	0.2
Net cash used in investing activities	(11.8)	(8.6)
Cash Flows From Financing Activities		
Dividend paid on ordinary shares	(9.3)	-
Proceeds from issue of equity securities	-	77.7
Proceeds from drawdown on debt facility	3.0	20.0
Payment for the acquisition of shares in ICSG	-	(46.2)
Repayment of debt facility	-	(59.4)
Interest and other costs of finance paid	(1.0)	(4.3)
Net cash used in financing activities	(7.3)	(12.2)
Net (decrease) / increase In cash held	(12.4)	6.4
Cash and cash equivalents at the beginning of the year	13.8	7.4
Cash and cash equivalents at the end of the year	1.4	13.8

Decrease in cash held due to:

- Inventory build on strategic core range,
- Payment for shop fitout as part of additional 13 stores opened during the year,
- Acquired 4 franchise stores,
- New ERP software,
- Dividend payment for FY2015 final dividend and FY2016 interim dividend.

Trading Performance - SALES

SALES

- Ⓢ Total Sales \$179.3 million, down by 0.9%
- Ⓢ Comparable Sales (- 9.7%)
- Ⓢ Online Sales growth \$0.6 million, OR 13.0%

	FY2016		FY2015	
	Total	Comps.	Total	Comps.
Australia	-2.8%	-10.5%	5.8%	-0.1%
New Zealand (NZ\$)	10.6%	-5.7%	2.2%	-1.9%
Total	-0.9%	-9.7%	5.2%	-0.4%

Australia

- Ⓢ Total Sales \$151.1 million, down by 2.8%
- Ⓢ Comparable store Sales (-10.5%)

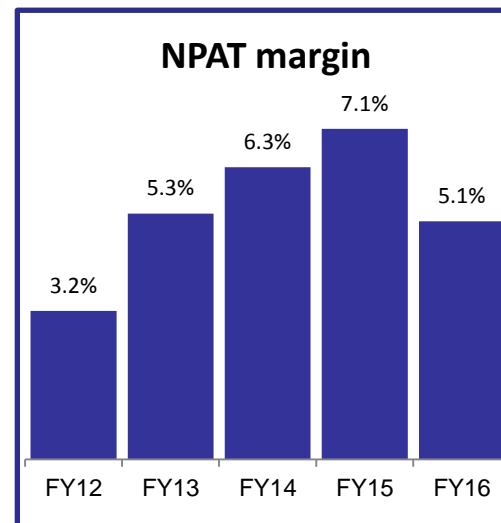
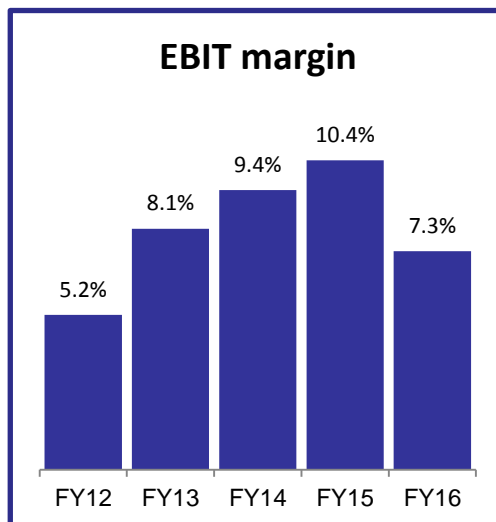
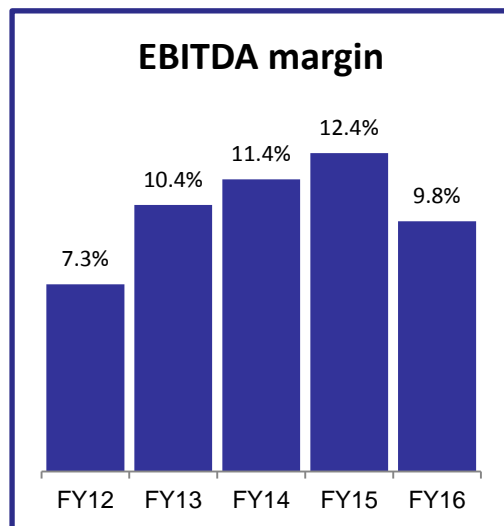
New Zealand

- Ⓢ Total Sales \$28.2 million, up by 10.6%
- Ⓢ Sales included \$3.2 million of The Service Company's Sales
- Ⓢ Comparable store Sales (-5.7%)

Trading Performance - EARNINGS

Earnings

- Underlying EPS of 22.64 cents.
- Dividend yield of 10.5%



Trading Outlook

- ⌚ Expanded ranges especially in the key areas of backpack and stickvacs.
- ⌚ Continued roll out of the premium range of Vorwerk products.
- ⌚ Rollout 'Click and Collect' in July 2016.
- ⌚ Integration of NZ commercial products acquisition with Australian commercial product offer.
- ⌚ Plans to open at least 5 new stores.
- ⌚ Improve working capital as inventory reduces.

Appendix A: Statutory to underlying reconciliation

Underlying Net Profit After Tax ('Underlying NPAT') is reported to provide shareholders additional information to enhance their understanding of the performance of Godfreys Group Limited. Underlying NPAT adjusts the Statutory NPAT for significant, one off items and changes in accounting policy, thereby facilitating a more representative comparison of financial performance between periods.

Year ending 1 July 2016	Note	Sales	EBITDA	EBIT	NPAT
\$'000					
Statutory results		\$179,296	\$15,478	\$11,134	\$7,766
<i>Adjusted for non-recurring items:</i>					
Management restructure	(1)	-	519	519	363
Relocation costs	(2)	-	490	490	344
Share Options issued on IPO to Key Management Personnel	(3)	-	\$1,032	\$1,032	\$722
Underlying results		\$179,296	\$17,519	\$13,175	\$9,195

Year ending 26 June 2015	Note	Sales	EBITDA	EBIT	NPAT
\$'000					
Statutory results		\$180,933	\$16,824	\$13,159	\$12,044
<i>Adjusted for non-recurring items:</i>					
IPO costs	(4)	-	\$3,426	\$3,426	\$3,426
IPO retention bonuses paid to Key Management Personnel	(5)	-	\$1,717	\$1,717	\$1,717
Share Options issued on IPO to Key Management Personnel	(3)	-	765	765	536
Relocation costs	(2)	-	543	543	380
Impact of first time adoption of hedge accounting policy	(6)	-	(\$427)	(\$427)	(\$299)
Refinancing charge & write off borrowing costs on repayment of borrowings via IPO proceeds	(7)				714
Tax consolidation adjustment	(8)	-	-	-	(\$7,028)
Underlying results		\$180,933	\$22,848	\$19,183	\$11,490

Note:

- 1) Restructuring costs for the new leadership team.
- 2) Relocation costs of head office to the new warehouse and office in Altona. Costs incurred in FY2016 relate to Service Team and Support Office. FY2015 costs related to warehouse relocation from Port Melbourne to Altona.
- 3) Share based expense for Rights issued to Key Management Personnel following the IPO in 2014.
- 4) IPO costs recognised as an expense.
- 5) Cash bonus paid to Key Management Personnel relate to IPO in 2014.
- 6) Impact of the change in accounting policy to apply hedge accounting for foreign exchange hedge contracts from 28 June 2014
- 7) Refinancing charge and write-off of borrowing costs in connection with the repayment of fixed-interest borrowings following the IPO.
- 8) Tax benefit recognised on formation of an Australian tax consolidation group upon IPO that is assessed as recoverable in accordance with AASB 112 'Income Taxes' for inventory valuation.

Appendix B: Profit and Loss by Country

	Underlying FY2016			Consolidated (A\$m)
	AUS (A\$m)	NZ (NZ\$m)	NZ (A\$m)	
\$ million				
Sales	151.1	30.7	28.2	179.3
LFL Sales growth	-10.5%	-5.7%		-9.7%
Cost of sales	(67.7)	(15.8)	(14.5)	(82.2)
Operating gross profit	83.4	14.9	13.7	97.1
Other income	4.8	0.8	0.7	5.5
CODB	(72.1)	(14.1)	(13.0)	(85.1)
CODB % of Sales	-47.7%	-46.0%	-46.0%	-47.5%
EBITDA	16.1	1.6	1.4	17.5
EBITDA margin	10.6%	5.1%	5.1%	9.8%
Depreciation	(3.9)	(0.5)	(0.4)	(4.3)
EBIT	12.2	1.1	1.0	13.2
EBIT margin	8.0%	3.6%	3.6%	7.3%

Appendix C: Retail Store Network

FY2016 stores movement

- 15 new stores opened**

- VIC: Bairnsdale, Warragul, Chadstone
- WA: Baldivis
- NSW: West Gosford, Caringbah, Bathurst, Gungahlin, Bondi Junction
- QLD: Gympie, Maroochydore, Helensvale, Fairfield Waters
- NZ: Mt Maunganui, Hornby

- Net 1 store bought back to company-owned**

- 5 stores closed**

