

GODFREYS GROUP LIMITED

(ASX: GFY)

ASX/Media Release

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GODFREYS ANNOUNCES RESTRUCTURE: STORE PORTFOLIO TO BE REBALANCED TO A MAJORITY FRANCHISE MODEL

3-year target to have up to 140 franchise stores from the current total store portfolio of 224

Summary

- Godfreys to rebalance store portfolio to embrace a franchise-led model
- Up to 60 corporate stores to be converted to franchise stores over 3 years
- Key metropolitan and large regional city locations to be retained as corporate stores
- Corporate stores in shopping centres and smaller markets to be converted to franchise stores
- Restructuring costs of up to \$2.0 million in FY17
- The Board provides underlying earnings guidance for FY 2017, as follows:

Sales	\$180 m - \$182 m
EBITDA	\$14 m - \$15 m
EBIT	\$9.4 m - \$10.4 m
NPAT	\$6.0 m - \$6.6 m
- Cash generated from this restructure will be used to reduce debt and pay dividends

Overview

Godfreys Group Limited (ASX:GFY) today outlined a strategic blueprint for the future of its business with a shift to a majority franchise model. Under the restructure, up to 60 stores will be targeted for conversion to franchise stores over a three-year period.

18 stores will be targeted for conversion in FY17 with the majority to be converted in H2 FY17. The restructuring will deliver ongoing EBITDA improvement and result in an improved balance sheet position.

Godfreys will continue to own and operate large format 'superstores' in key metropolitan markets and major regional cities as corporate stores, while the majority of new store openings will be undertaken as franchises.

Commenting, Godfreys Chairman, Mr Rod Walker, said:

"Following an internal strategic review to address continued weak performance in the business, the Board has concluded that re-balancing the store portfolio with a bias to franchise stores is the best option to place the business on a solid footing for long term growth.

"Over the next three years the majority of our stores by number will become franchise stores with a particular focus on smaller and regional locations. This streamlining of our store portfolio will enable greater management focus on our more profitable larger format stores. It will also deliver medium and long term improvements to both profitability and the balance sheet," he said.

Also commenting, Godfreys CEO Mr John Hardy, said:

“Godfreys has a long and successful history operating the franchise model having implemented the first franchise store in the mid-1980s. Our franchise stores have a track record of out-performance, underpinned by the fundamental driver of small business ownership, particularly in regional areas where local knowledge and relationships are a major element of success.

“Refocussing the business on a franchise concept will enable Godfreys to accelerate the current business improvement program. We expect strong interest from within our existing team to become franchisees,” he said.

Financial Impact and forecast

The conversion of approximately 18 company stores to franchise stores in FY17 will deliver immediate cash flow benefits by lowering the overall cost of doing business as well as additional franchise fees; a reduced requirement for stock; and reduced capex requirements.

The balance sheet will be strengthened through a reduction in inventory and fixtures and fittings.

The Board will also conduct an assessment of the carrying value of intangible assets as a result of the strategic review.

The positive financial impacts of this strategy will increase as more stores are converted, allowing additional benefits to flow through.

Implementation

An internal implementation team, led by current CFO, Bernie Bicknell has already commenced work to deliver the restructuring strategy and will be subject to a quarterly review by the Board. Mr Bicknell will transition from the role of CFO to lead the implementation project on a full time basis from March, 2017. The implementation team is focussed on improving franchisee recruitment and induction processes, upgrading the marketing program to attract franchisees and improving support functions, including dedicated customer service lines for franchisees.

Rod Walker added:

“The Board has full confidence in the operational improvement plan led by the Company’s CEO John Hardy and underpinned by a renewed focus on franchise stores. In addition, John Hardy and his team will continue to focus on delivering the core operational turnaround in the areas of marketing and customer service.”

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About Godfreys

Godfreys Group (ASX: GFY) listed on the ASX in 2014 and is Australia’s largest specialty retailer of domestic and commercial floor care 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 450 permanent employees, with its head office and a company-operated warehouse located in Victoria. Godfreys’ multichannel offering is distributed via 224 branded retail stores located in standalone ‘superstores’, and shopping centres and retail shopping strips.