

NZX and Media release

20 December 2018

FINANCIAL RESULTS FOR THE SIX MONTHS TO 31 OCTOBER 2018

Smiths City returns to pre-tax profit amid ongoing retail reset

Summary:

- *Group revenue rises 3.1% to \$112.0 million; retail operations achieve acceptable same-store sales growth*
- *Net profit before tax rises to \$0.6 million from break-even in the same period last year*
- *Smiths City Finance benefits from growth in the retail business with the loan book growing to \$69.3 million from \$64.7 million at the same time a year ago.*
- *Significant investment in the store network and group information systems still required*
- *Smiths City intends to transition to the new NZX listing rules in early January 2019*
- *Outlook for the full year linked to the success of the Christmas trading season.*

Smiths City (NZX.SCY) today reports a return to profit in the six months to 31 October 2018, flowing from an ongoing strategy reset in its national furniture and appliance retail business and growth in its consumer finance business.

Group revenue for the six months to 31 October 2018 rose 3.1% to \$112.0 million from \$108.6 million in the same period a year ago. The half-year saw gains from same-store sales growth and rising finance income diluted by the impact of the closure of the under-performing locations at Ngauranga Gorge, Queenstown and Riccarton and continuing challenges in the Auckland market.

The growth in sales has required careful management of margins, which eased during the period. Net profit before tax for the six-months rose to \$0.6 million up from 'break even' in the same period a year ago. A small, and narrower, trading loss in the retail business was offset by positive earnings from the finance business. The result includes the utilisation of \$0.9 million from the previously-announced provision for onerous leases.

Chair Alastair Kerr said: "Retail conditions in our core categories over the last six months have been supportive and the Group has begun to see some early encouraging results from an ongoing strategic review. As the painful, but prudent, provisions we took on onerous leases at the end of last year show, the Group is demonstrating a willingness to take all necessary steps to drive improvements in shareholder value.

"This spirit – coupled with the success of our centenary celebrations – is starting to drive renewed interest and a reappraisal of our proposition. These are very early days. The challenge before us is to maintain this momentum through the important Christmas trading period and beyond."

Balance sheet

Smiths City remains well funded. As at 31 October 2018, net debt increased to \$58.6 million, from \$46.0 million as at the end of October 2017 and \$54.7 million at the end of April 2018. This was primarily due to the growth

of the finance company loan book and trade receivables. All debt is secured against finance company receivables.

Cash and cash equivalents at the end of October 2018 stood at \$2.3 million, down from \$6.2 million at the end of April. We ended the period with lower-than-expected inventories reflecting the success of our recent sales campaigns. Over the last month we have rebuilt stock ahead of the crucial Christmas trading period.

“As we indicated at our annual meeting in August, significant investment in the basic infrastructure of the business is needed. This remains our view and consequently the board has again resolved not to pay an interim dividend,” Mr Kerr said.

Operational review

Chief Executive Roy Campbell said: “Smiths City is benefiting from a reset to our buying practices and the way we are marketing our proposition to consumers. Consequently, we are now delivering and communicating a more relevant offer. We have moved to a more dynamic pricing model, where we closely monitor the activity of our competitors, to ensure we are always delivering the value that is synonymous with the Smiths City Brand. We have also carefully managed our range and our inventory.”

Retail sales rose 3.0% to \$107.9 million compared to \$104.8 million in the same period a year ago, while retail trading losses narrowed to \$0.6 million from \$1.7 million. A significant contributor to the result was Smiths City’s online and commercial operations.

“The relaunch of Smiths City’s online offering at the start of the year continues to deliver strong results. It has demonstrated the important role that the internet plays in allowing customers to compare products and prices across the market and the role of the online site as a portal for customer fulfilment.

“Our commercial division, which provides furniture and appliances to businesses across the country, is making strong progress in the South Island and lower North Island. It also won some large contracts in the half-year.

“We have meanwhile driven significant trading improvements across the network. We are encouraged by the sales growth we have seen in our Auckland stores, which are now gaining some traction as they benefit from new management and more localised marketing support. We are steadily building recognition in the appliance categories in the region and the challenge is now to more strongly establish our credentials in the furniture category.

“The Auckland stores are still not yet breaking even, but we continue to invest because we recognise the benefits of achieving a strong presence in the market. We are intensely focussed on achieving success and we are now exploring how to move these stores more rapidly into the black.

“Meanwhile, there is still more work to be done across the broader store network. In the first half of the year we made a start on our investment programme with a refresh of our two Christchurch stores. We also began an upgrade of our national management information systems.

“We continue significant investment in our people in recognition of the pivotal role they play in delivering the Smiths City customer experience. This investment includes training as well as enhancing the terms of employment through initiatives such as ensuring all employees are paid at least the equivalent of the living wage.”

Smiths City Finance

Revenue in the finance business increased 7.9% to \$4.1 million from \$3.8 million in the same six-month period

a year ago, while trading profits were down 12.5% to \$2.1 million from \$2.4 million following a one-off correction to a provision for doubtful debts during the prior comparative period. The finance loan book (receivables) has grown to \$69.3 million from \$64.7 million at the same time a year ago and \$68.2 million at the end of April 2018. Bad debts on the loan book remain at a low 0.65%.

In addition to benefitting from the improvement in sales from the broader retail operation, the finance business is also delivering an offer that is better resonating with customers. Competition in the market continues to be strong and this has seen a significant lengthening of interest-free periods both at Smiths City and by our competitors. We have resolved to meet the competition on these offers.

Transition to new NZX listing rules

The NZX has given notice that its new Listing Rules will come into effect from 1 January 2019 and that issuers can transition to these new rules at any time after that date but before 1 July 2019. Smiths City Group intends to adopt the new Listing Rules from 1 January 2019.

In line with these new Listing Rules, Smiths City Group will not be publishing an interim report for the six months to 31 October 2018. Smiths City Group also intends to rely on the class waiver for its existing constitution, under which the constitution will be deemed to contain the provisions set out in the new Listing Rules from 1 January 2019 until Smiths City Group is able to seek shareholder approval for the required changes to its constitution at its annual shareholder meeting next year.

Outlook

“Smiths City’s revenue and earnings follow a seasonal pattern, with the second half of the year typically exceeding the first half as a direct result of the sales made during the Christmas and year-end holiday trading period,” Mr Campbell said.

“In the last six months we have demonstrated that we are taking the right steps to return to growth. But we are not complacent. We are intensely focussed on continuing to drive the renewal we have seen in the first half of the year.

“We will continue to review the store network and will not hesitate to close stores where there is little chance of them making a contribution to the group. Smiths City will provide an update to trading early in the New Year.”

For more information:

Investors

Roy Campbell

Chief Executive

Tel: 03 983 3032

Mob: 027 223 9574

Email: roy.campbell@smithscity.co.nz

Media

Richard Inder

The Project

Mob: 021 645 643

About Smiths City Group Limited

Smiths City Group (NZX.SCY) was founded in Christchurch in 1918 and has a proud tradition as one of New Zealand’s oldest and largest retail chains. The company floated on the stock exchange in 1972 and operates 33 stores (including 2 clearance centres) nationwide. It also operates the Smiths City Finance, and the Smiths City Commercial businesses. On the web: www.smithscity.co.nz and www.smithcitygroup.co.nz.