

NZX & Media release

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Smiths City defers \$5.7m capital distribution amid tough trading.

'Live better' store revitalisation programme delivering results, but adverse trading conditions and consumer uncertainty continue in the second quarter.

National appliance and furniture retailer Smiths City Group today announces it has deferred its planned \$5.7 million distribution of capital following a continuation of tough trading conditions.

In the face of the trading conditions, sharp competition, particularly in the home electronics, digital products and whiteware categories, and the company's ongoing investment in its revitalisation programme, the company has decided it is appropriate to maintain a more conservative capital structure. Smiths City will reassess this position in 2018.

Smiths City now expects revenues for the six months to 31 October 2017 to be around 3% down from the \$113.9 million posted in the same period last year, with same-store sales for the six-month period down by around 4%.

Smiths City Chairman Craig Boyce said: "We expect group profitability to be lower than the same six months last year, with a weaker retail performance partially offset by a strong performance from our finance operations.

"Our ongoing revitalisation programme has over the last three years made Smiths City a more resilient business. The next steps are the refurbishment and re-branding of our store network under the new 'live better' livery and the renewal of our finance offer. We are encouraged by the results we have seen from the new store in Hastings and the recently-rebranded store in Whangarei and we are determined to continue the roll out of the new format to the broader network.

"However, the board is mindful that this programme is taking place in a challenging retail trading environment. The imposition of lending restrictions on real estate early this year, significant reductions in residential home sales, uncertainty in the lead up to the election and the formation of a Government, have affected confidence, and led to reduced spending on the home.

"Furniture and appliance retailers have responded with aggressive price competition, which has lifted retail sales and dealt with overstocking at the expense of profit. In the home electronics, digital products and whiteware categories margins have declined to levels unseen before. The home furnishing category has maintained more acceptable margins.

"In the face of these challenges, it is appropriate the company maintains a more conservative level of gearing. The Smiths City board has resolved to review the position during the 2018 calendar year."

Smiths City announced the proposed capital distribution in June. It was to be conducted in accordance with Part 15 of the Companies Act 1993, via a compulsory acquisition of shares. The distribution was, among other things, subject to a special resolution of shareholders.

Smiths City Chief Executive Roy Campbell said competition in recent months had been intense. In the face of these pressures, Smiths City's success will be determined by smart buying decisions and the extent to which we can deliver a superior customer experience through: appealing store formats; a compelling online channel and point-of-sale finance offer; and excellent customer fulfilment.

“Hoping for a market upturn or an easing in competition is not an option and we believe continuing to reconfigure the business to achieve these goals is essential.

“We are pleased so far with the progress we have made. Our new Hastings store, the first to roll out the new ‘live better’ brand, has carved out a strong position in the region since it opened in March of this year.

“Meanwhile, the rebranding of the former Furniture City store in Whangarei, is showing early signs of delivering on its promise. Indeed, in the period it has been operating under the Smiths City ‘live better’ brand, its weekly sales have been 26% ahead when compared to the same period last year before the rebrand.

“Our operations team is now focussed on finishing the rebrand and refurbishment of the remaining two Furniture City stores in Auckland under the Smiths City ‘live better’ format ahead of the Christmas trading period and then turning its attention to the broader network in the new year.”

Smiths City will provide a further update when it releases its financial results for the half year to 31 October 2017.

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About Smiths City

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 17 stores in the South Island and 16 in the North Island trading under the Smiths City & Furniture City brands. It also operates the Smiths City Finance, and the Smiths City Commercial businesses. On the web: www.smithscity.co.nz