

NZX and Media Release

17 April 2018

Smiths City trading update

National furniture and appliance retailer Smiths City today reports tough trading conditions coupled with the impairment of leases on several persistently underperforming stores will result in the company posting a loss for the year to 30 April 2018.

Smiths City now expects revenue for the year to range between \$209.0 million and \$213.0 million compared to the \$227.4 million posted in the same period last year. Trading losses for the year are expected to range between \$1.25 million and \$1.75 million compared to a trading profit of \$2.0 million last year.

In addition to the trading loss, Smiths City expects to make an impairment provision of \$4.8 million relating to the leases on stores that have consistently underperformed due to factors including: changing trading patterns, a shift in local conditions due to the opening of new retail hubs, and onerous leases.

The net loss before tax is forecasted to range between \$7.0 million and \$8.0 million compared to a profit of \$2.4 million in the same period last year. The result is still subject to trading in April and the normal end-of-year review of the balance sheet.

Smiths City Chief Executive Roy Campbell said: “Despite a successful Christmas trading period, demand for our core categories was weak in November and January. And although we saw some improvements in February and March, this soft demand has led to heavy discounting, often to unsustainable levels, and the expansion of interest-free credit terms to periods rarely seen in the industry. These trends were most pronounced in Christchurch, where we operate our largest outlets and generate a significant proportion of our total sales.

“Meanwhile, the disruptions to trading caused by the refurbishment and rebranding of the former Furniture City stores in Auckland and Whangarei and the closure of the Ngauranga Gorge store in Wellington in November have weighed heavily on the results.

“The rebranded Auckland stores, which reopened at the start of December, are not yet delivering to our expectations. Although we are making strong sales of appliances – a category previously not available in the former Furniture City stores – furniture sales are yet to recover to levels prior to the rebrand. This reflects a regional customer base that is still familiarising itself with the Smiths City brand as well as the broader market challenges.

“Three years ago, we started on a programme to transform Smiths City. This began with the closure of the Powerstore, Alectra and Furniture Concepts business units and the rationalisation of group distribution and administration centres. We have more recently moved to a programme of stock rationalisation and

refreshment, merchandising improvements, staff changes and trading and store refurbishments. And while these changes have delivered positive results for many of our stores, in a small number of locations they have made little difference to sales.

“It has now become apparent, that despite our best efforts, these locations are now likely to remain loss making through to the end of the current lease periods. Considering these judgements, Smiths City now believes it is appropriate that the impairments are recognised in the results for the year to 30 April 2018.

“Smiths City is determined to invest and grow in markets that offer the strongest opportunities, including Auckland and the upper North Island, and to continue to lift the performance of the existing network through improving the execution of the Smiths City ‘live better’ brand strategy.

“We are confident the combination of our national reach, our dedicated team, our finance business and a brand that in May celebrates its centenary, combine to offer Smiths City a significant competitive advantage.

“Our success ultimately depends on the Smiths City brand being synonymous with great value, a superior customer experience in-store and excellent customer fulfilment. We are working constantly to deliver on this goal.”

Smiths City will release its results for the year to 30 April 2018 in June.

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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 35 stores (including 3 clearance centres) nationwide. The group comprises Smiths City Retail, Smiths City Finance and Smiths City Commercial. On the web: www.smithscity.co.nz and www.smithcitygroup.co.nz.