

## **Managing Director's Address to the Annual Meeting - 20 May 2010**

Thanks Rosanne. I too would like to welcome you to our 2010 Annual General Meeting. Thank you for coming. I am delighted to report to you that Briscoe Group has come out of the recession in great shape. Our 2009 result is nothing short of outstanding, proof of the commitment of our staff, the adaptability of our management and the strength of our retail brands.

A couple of weeks ago we released our 1<sup>st</sup> quarter result. Group sales for the quarter ended 2 May 2010 were \$96.8 million, up 7.39% on the first quarter last year.

While the gross profit generated for the first quarter is ahead of last year, the gross margin percentage is slightly down, reflecting the intensely competitive retail environment. However, Group sales growth has been sufficiently strong such that profit is tracking well ahead of last year.

Homeware sales were up 7.89% to \$63.3m for the quarter. On a same store basis, Homeware sales were up 7.58%. Rebel Sport increased sales 6.45% to \$33.5m with same store sales at the same level. I have to tell you we were delighted with this result. To have our two large retail brands performing way ahead of the first quarter last year is most heartening.

And just as pleasing is Briscoes Homewares market share as measured by Datamine from data supplied by Westpac. For the January 2010 qtr we significantly increased our market share in every region throughout New Zealand.

We made a number of significant, well-documented changes to Briscoe Group's operating model during last year, and these are definitely impacting on our trading performance.

But above all else, we at Briscoe Group never lost sight, of sound retailing fundamentals - getting the right stock, in the right place, at the right time, in the right quantity and at the right price. And we back this up with aggressive promotion, and a commitment to looking after our customers when they come into our stores.

Just a year ago, customers stood in fearful anticipation, of a global financial meltdown, or even worse. Feeling vulnerable and helpless, they stopped spending.

But now they've gotten used to dark clouds. They probably feel a little less wealthy, but also less helpless. Our customers are realising they're in control - they know what they want, what it really costs, and where to get the best deal.

My view, is that shoppers will continue to spend with caution, even as they begin to feel more financially secure. And that means that times, will continue to be tough for retailers. Consumers are no longer expanding their wallets to accommodate their every want. Rather, they're restricting spending to fit their budgets. They're having to make choices. But unlike in the recent past, the critical choice is which item to buy, not which credit card to use.

In addition, we're seeing significant uplift in demand for well-known and trusted brands as shoppers opt for safety and familiarity.

Our research tells us that retailers that continue to focus on their core business, and execute well, are outperforming those, whose response to softer sales, has been to move into new, and less familiar territory. Briscoe Group's retail brands have proven to be very much right for the times, and their increasing popularity with shoppers, is testament to this. For us, its always been about price-plus and that core philosophy is working.

But resting on our laurels is not the Briscoe Group way. Here are just a few of the strategies we're putting in place to ensure our great start to this financial year continues:

1. We will be increasing the level and inventiveness, of our promotions to continue to grow our overall market share, acknowledging that we'll be sacrificing some margin percentage to boost gross profit dollars.
2. Our new profit centre structure will continue to develop, as we make ongoing refinements to get, and keep the right people in the right positions, so that cost and productivity are optimised. One of the strengths of this new way of operating, is that senior profit partners are encouraged to share their successes with their colleagues.
3. We're continuing to look for ways to reduce our costs by re-tendering major services such as cash, waste collection, travel and power to name a few. We are relentless in our control of costs.
4. We're working with our profit partners to enhance our space management capability, with the intention of optimising space utilisation within our stores, and creating more profit per sq mtr in the process.
5. In terms of store development we're currently relocating our Rebel Sport store in central Wellington to the ground floor of the James Smith building. Both our Palmerston North Briscoes and Rebel Sport brands are relocating, and in at least three key sites, Henderson, Albany and Botany, we're downsizing Rebel Sport, but upsizing the adjoining Briscoes Homeware store at the same time. We believe we can increase the profitability of both brands in the process.
6. Merchandising is just so critical to get retailing right. A big contingent of buyers led by Fraser Collins have just returned from over a month in China attending the

major fairs and visiting our factories and suppliers. I spent a great deal of that time with them. I cannot emphasize enough the importance to Briscoe Group of the relationships we've formed over the years, especially in China and Europe, enabling us to purchase product of increasing quality, fashionability and design, all at low prices, affording us a strong margin return, enabling the powerful promotions that make Briscoes and Rebel Sport irresistible to shoppers.

7. Last year I briefed you on the implementation of our new SAP stock management system. I can now confirm to you that the system is living up to its promise, in terms of adding value, through ensuring that our best selling product is always on shelf. It has allowed our buyers to be analytical in their ranging, enabling us to deliver on offering the right product at the right time. For Rebel Sport in particular, SAP has also allowed a more controlled exit of seasonal stock, and a much improved profit performance on clearance.

8. A review of our business would be incomplete without mentioning Living & Giving. Over the last few months we've changed the product focus in most L&G stores, concentrating on creating the most compelling and complete kitchen story in a shopping mall. We believe the range in food prep, cookware and dining to be the best available in a chain store. Our objective has been to include more entry and mid-range product to our ranges, in line with what we believe customers are looking for, from us. And we've secured significant margin improvement by better leveraging Briscoes' off-shore buying power and relationships. L&G is a long slow haul back to profit but, with every passing month, the brand edges closer to breakeven.

In conclusion, we think the year ahead will be tough for retailers, as shoppers buy within their means. For Briscoe Group this implies that growth will only come from market share and that means doing things smarter than our competitors, sticking to

what we know, works. Our first quarter share and sales growth quite clearly says to us that New Zealanders like us, they like what we're doing, and how we're doing it. I'm confident that Briscoe Group is well on the way to another great year.

Thank you.