

26 November 2018

Speirs Group Limited – Chairman’s Address to the Annual Meeting of Shareholders

I am pleased to report to you a summary of our results to 30 June 2018 and an update on Company and Group affairs since that date.

Overall Results

The directors are pleased to report a significantly improved result for the year ended 30 June 2018. Highlights of the year were:

- A very positive turnaround in the performance of Speirs Foods including the release of a new range of products under the THE WHOLE MIX brand;
- Continued growth in the Equipment Leasing & Finance business which has resulted in an uplift in the carrying value of our shareholding;
- A successful re-financing of the 2017 Redeemable Preference shares;
- A mutually acceptable sale of our 40% shareholding in Rosa Foods to the majority shareholder; and
- A reduction in the debt owed by the Group, resulting in an improvement in the ratio of equity to total assets from 24.8% to 42.8%

The overall financial results compared to last year are as follows:

	2018 \$000	2017 \$000
Speirs Foods trading profit/(loss) before interest	829	(309)
Associates' and Available for Sale Financial Assets profit/(loss) and share of dividends		
- Rosa Foods Limited	135	115
- Advaro	-	(36)
- Equipment, Leasing and Finance Holdings Limited	-	613
- Speirs Nutritionals Partners LP	(1)	(3)
Corporate governance costs	(226)	(273)
Net financing costs	(374)	(312)
Recognition of Future Income Tax Benefit	94	-
Overall profit attributable to shareholders	457	(205)
Fair Value Adjustment on Available for Sale Financial Assets	699	72
Total Comprehensive Income/(Loss)	1,156	(133)

The Group reported a profit after tax of \$457,000 compared to the previous year loss of \$205,000. After adjustments to the fair value of our investment in Equipment Leasing & Finance, the Total Comprehensive Income of the Group was \$1,156,000 compared to a Total Comprehensive Loss of \$133,000 in the previous year. The turnaround was driven primarily by the improved profit before interest from Speirs Foods of \$829,000 compared to a loss of \$309,000 in the previous year and an increase in the carrying value of Equipment Leasing & Finance of \$699,000.

Turning to each of our core investments.

Speirs Foods

Speirs Foods maintains its role in the processing and sale of fresh salads and related products throughout New Zealand, primarily through the two major supermarket chains.

Last year we outlined a number of initiatives underway to improve the profitability of Speirs Foods. These initiatives and others have been implemented and returned the business to good profits. As noted in the Annual Report these included:

- A review and restructuring of the administration and sales support functions.
- Continuing review of our product recipes and material sources to reduce costs.
- A revised New Product Development (NPD) process which has resulted in a steady pipeline of new higher value salads that have been brought to the market which are proving popular with our customers.
- Contracting out of our freight distribution which meant we also ceased carrying freight for other parties. This has simplified the business and provides stable freight costs.
- A changed approach to pricing to limit discounts and provide a fair return on the cost of producing products.

A highlight of the year was the introduction of THE WHOLE MIX brand with its tag line “Good Made Easy”. Under this brand Speirs Foods is marketing an innovative mix of fresh, flavoursome salads and sides that are nutritious and tasty - for eating on the go or to share with family and friends at home. We were proud to win the FMCG Business Outstanding New Product Award in the 2018 Outstanding NZ Food Producer Awards for THE WHOLE MIX spiralised Vegetable Noodles product. In addition, the other spiralised vegetable products won two gold awards and a silver award.

Since the 2018 Annual Report was published our THE WHOLE MIX vegetable noodle range has also taken out the Massey University Supreme Award at this year’s New Zealand Food Awards. The noodle range also won the Massey University Health and Wellbeing Award and the James & Wells Business Innovation Award. The noodle range includes Zucchini, Butternut, Medley (Beetroot, Carrot, Zucchini) and Kumara. Judges said the products are a tasty and nutritious alternative to pasta, can be used in stir-fries and salads, or eaten straight from the package and their growing popularity reflects some of the changing tastes of New Zealand consumers.

Ross Kane has undertaken the role of General Manager since November 2016 . Ross has extensive experience in the fresh foods business, and has shown his ability to build and grow a great management team. Together they are leading a transformation of the business.

Subsequent to balance date, on 30 July 2018 we announced that the group had entered into a conditional Heads of Agreement to sell 33% of the operating business of Speirs Foods Limited to interests associated with Ross Kane.

This transaction was completed on 1 November 2018 with the majority of the existing Speirs Foods Limited business excluding land and buildings, being transferred to a newly established Limited Partnership called Speirs Foods (2018) LP which will be the operating entity. Speirs Group owns 67% of the new entity and Kane Investments Limited 33%. All of the land and buildings have been retained within the Speirs group of companies and are leased to the new Speirs Foods (2018) LP. Ross Kane was appointed the Managing Director of Speirs Foods (2018) LP on 1 November 2018.

The directors are satisfied that a fair value has been obtained for the partial sale of the assets of Speirs Foods to Kane Investments. The amount received is at a modest premium to our most recently published accounts and in line with an independent market valuation using typical earnings multiples and parameters for a business of this nature. The final accounting entries for the transactions are still being completed and the final impact on Speirs Group will be evident to shareholders when we release the consolidated financial statements for the six months ending 31 December 2018.

The directors believe the arrangement is a win-win for both parties and will provide the leadership and incentives to continue the strong performance and development of Speirs Foods that has occurred under Ross's leadership and enhance the value of the business.

During the year we also completed work to strengthen our main production facility, bringing it up to in excess of 67% of new building standard.

I would like to acknowledge the work of whole team at Speirs Foods. It has been a very busy and successful year and established a great base for the business to move forward. We have also continued to build capability across the management team and general staff.

Rosa Foods

In April 2018, Speirs Group Limited agreed to sell its 40% minority shareholding in Rosa Foods Limited. The opportunity was taken when the majority shareholder of Rosa Foods Limited made an offer to retake full control of the Company. As there was limited ongoing future synergy benefits expected between Rosa Foods and Speirs Foods, this opportunity was taken to exit our interest in this business.

The shareholding was sold at a modest premium to its 30 June 2017 carrying value of \$714,000. Speirs Group received an upfront cash payment with the balance to be paid

progressively over a three year period. The deferred balance is subject to interest payments at market rates.

Equipment Leasing and Finance Holdings Limited (ELF)

The Group Limited holds 2.0% of the ordinary shares of EL&F. This includes a small parcel of ordinary shares issued to Speirs Group at a cost of \$172,000 (\$1.50 per share) by EL&F during the year under review as part of an offer to all shareholders.

AB Equipment Limited (ABE), wholly owned by EL&F, supplies a wide range of heavy mobile equipment to the forestry, infrastructure, construction and manufacturing industries throughout New Zealand. Other subsidiaries of EL&F provide maintenance services to the trucking industry in New Zealand (NZ Trucks Limited), vehicle and fork-lift leasing (Yoogo Limited and ABE) and the funding of heavy and light commercial vehicles, cars and other mobile equipment (Speirs Finance Limited).

In mid-2016 these companies came together as a group and as subsidiaries of the newly formed holding company EL&F. This reconstruction has enabled the whole group to become a strong participant in all its chosen industries.

Fellow EL&F shareholders are three independent large private equity firms. Your directors have confidence that, although the Group's percentage shareholding in EL&F is small, its value to Speirs Group Limited is significant and will continue to be enhanced and realised over time.

The value of our shareholding in EL&F is recorded at fair value. As at the end of the period there was an increase in the value of our holding of \$699,000.

Speirs Nutritionals Partners LP (SNP)

SNP have sold the Intellectual Property, Processing Technology and Knowhow associated with its Omega-3 fish oil product and discontinued its manufacturing operations in New Zealand. Future revenue will only arise if sales of the Omega-3 product range by the new owner commences.

Corporate

Corporate costs have been reduced and are kept as low as possible. There have been some legal costs incurred in completing the sale transactions.

The directors reduced their fees from 1 July 2017 to recognise that the business has been simplified and financial performance has not been strong. Total fees paid across the group fell from \$174,000 for the 2017 year to \$99,000 for the 2018 financial year.

Financing

The Group refinanced its \$2.93 million of 2017 redeemable preference shares due for repayment on 30 September 2017 by way of:

- Cash of just over \$400,000 received from Equipment, Leasing and Finance Holdings from the partial repayment of subordinated debt held by Speirs Group in that entity;
- \$2.5m raised by way of an offer for redeemable preference shares that mature in September 2021. The offer was made to a group of investors who qualified under certain exclusions in the Financial Markets Conduct Act 2013, namely: the “wholesale investor” exclusions; the “small offers” exclusion; and the “offers to close business associates” exclusion. The terms of the issue of 2021 redeemable preference shares are substantially similar to the terms to the 2017 redeemable preference shares.

In April 2018, we received the first payment from the sale of the Rosa Foods shareholding and in May 2018 we received \$595,000 from Equipment, Leasing and Finance Holdings with the repayment of the remaining subordinated debt held by Speirs. These funds have been advanced to Speirs Foods to enable the mortgage on the land and buildings to be reduced from \$730,000 to \$10,000.

The overall impact of the transactions and trading activity over the year has resulted in the reduction in the debt owed by the Group, with the ratio of equity to total assets improving from 24.8% to 42.8%.

We note that recent trading of Speirs Group shares, albeit at very low volumes, has been at between 5 and 8 cents per share which does not reflect the improvement that has occurred in the net assets of the Company. The recent trading range compares to the net asset backing of those shares which was approximately 29 cents per share at year end.

Board and Management

The Board of Speirs Group presently comprises four non-executive directors— Fred Hutchings, Nelson Speirs, David Speirs and myself.

Nelson Speirs retires by rotation this year and offers himself for re-election.

The Board of the new General Partner for Speirs Foods (2018) LP is Derek Walker, Fred Hutchings and Ross Kane.

Both boards continue to work effectively and I thank my colleagues for their work on behalf of the Company.

Our company secretary Lee Simpson continues to provide excellent support to the Group. He carries out his secretarial and finance responsibilities with a high degree of efficiency and professionalism.

I would also like to thank again the team at Speirs Foods for their continued hard work in a challenging market environment.

Auditors

Following the last Annual Meeting, KPMG unexpectedly terminated their role as auditor of Speirs Group Limited. The directors undertook a competitive tender process to select a replacement auditor, and appointed Grant Thornton.

They have carried out their responsibilities diligently and the directors have confirmed their appointment for the 2018/19 year.

Dividend

While the position of the Group has improved, the Board considers it prudent to preserve cash for further debt reduction, and has thus resolved not to pay a dividend for the period. If the cash position improves in the future and the debt to equity ratio reaches a sustainable level, future dividend payments will be considered.

Outlook

Our focus on the improvement in Speirs Foods profitability and maximising returns from our other investments has been effective over the last year. We remain firmly on this path with a focus on reducing debt. Once we have debt at a manageable level then, cash returns from trading activities can be applied to returning cash to shareholders.

The present focus of the Group is to maximise and grow the value of our remaining two core investments, Speirs Foods, and Equipment, Leasing and Finance, and continuing to strengthen our balance sheet by reducing debt.

Speirs Group Limited is a company based in the Manawatu/Rangitikei area and is primarily involved in fresh food production (as a majority owner of Speirs Foods (2018) LP) and as a minority shareholder in Equipment, Leasing and Finance Holdings Limited. Speirs Foods (2018) LP manufactures and supplies fresh foods, mainly fresh salads, to supermarkets and the food service industry across New Zealand.

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