

## SPEIRS GROUP LIMITED 2019 AGM Chairman's Speech

I am pleased to report to you a summary of our results to 30 June 2019 and an update on Company and Group affairs since that date.

### **Overall Results**

The overall financial results compared to last year are shown on the slide:

	<b>2019 \$000</b>	<b>2018 \$000</b>
Speirs Foods/Speirs Foods (2018) LP trading profit/(loss) before interest	<b>494</b>	829
Corporate Income	<b>88</b>	-
Associates' and Fair Value Through Profit and Loss Financial Assets profit/(loss) and share of dividends		
- Rosa Foods Limited	-	135
- Equipment, Leasing and Finance Holdings Limited	<b>344</b>	699
Formation Costs of Speirs Foods (2018) LP	<b>(109)</b>	-
Corporate governance costs	<b>(282)</b>	(226)
Net financing costs	<b>(323)</b>	(374)
Depreciation Expense of Speirs Foods Limited in relation to acting as landlord for Speirs Foods (2018) LP	<b>(71)</b>	-
Recognition of Future Income Tax Benefit	-	94
<b>Total Profit</b>	<b>141</b>	1,156
Profit attributable to non-controlling Interest	<b>(49)</b>	-
<b>Overall profit attributable to ordinary shareholders</b>	<b>92</b>	1,156

The Group reported a profit after tax of \$141,000 or \$92,000 after allowing for the profit attributable to the non-controlling interest. This compares to the previous year profit of \$1,156,000. The reduced profit was driven primarily by a lower profit before interest from Speirs Foods of \$494,000 compared to a profit of \$829,00 in the previous year, a reduced uplift in the carrying value of

Equipment Leasing & Finance and one-off costs associated with the set-up of the new Speirs Foods Limited Partnership.

Key points of the year were:

- The transfer of the Speirs Foods operating business to a new Limited Partnership Structure in conjunction with the sale of a 33% interest to an associated party of the Managing Director, Ross Kane. 100% of the land and buildings ownership was retained within the Speirs wholly owned group and is leased to the new Limited Partnership.
- A slightly disappointing result for the Speirs Foods business. This was due to pressure on margins and a slow start to the year. However, positioning for the future continued with further products released under THE WHOLE MIX brand;
- Continued growth in the Equipment Leasing & Finance business and an uplift in the carrying value of our shareholding through recognition that the preference shares will be converted to ordinary shares;
- Termination of the Licence for the Omega 3 encapsulation technology licenced by Speirs Nutritionals with the subsequent decision to wind up Speirs Nutritionals;
- A reduction in the debt owed by the Group, resulting in an improvement in the ratio of equity to total assets from 42.2% to 47.6%

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.

On 1 November 2018, 33% of the operating business of Speirs Foods Limited was sold to interests associated with Ross Kane, the General Manager of Speirs Foods. This transaction was completed by transferring the majority of the existing Speirs Foods Limited business excluding land and buildings, to a newly established Limited Partnership called Speirs Foods (2018) LP which became 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 at market rental to the new Speirs Foods (2018) LP. Ross Kane was appointed the Managing Director of Speirs Foods (2018) LP on 1 November 2018.

The profit contribution by the Speirs Foods business declined compared to the previous year. Although total sales value increased, pressure on margins from increased costs impacted on the margin achieved. In particular, increases in the minimum wage level have had a significant impact on both Speirs internal labour costs and raw material costs in excess of the underlying inflation rate. The minimum wage increases not only impact those on the minimum wage but also across the spectrum of employees as wage relativities need to be maintained to reward skill and experience and retain and recruit our staff. Recouping these costs is always a challenge as our customers seek justification for any price increase and we also need to balance price against maintaining our market share.

The range of products under THE WHOLE MIX brand with its tag line “Good Made Easy” continues to expand. 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 at home. During the year a range of specialist bagged coleslaw products were introduced which saw us increase our product volume going into the produce sections of supermarkets. A range of snack pots which include salads and protein was also introduced.

### **Rosa Foods**

As noted previously, Speirs Group Limited has sold its minority shareholding in Rosa Foods Limited. We received an upfront cash payment in April 2018 with the balance paid progressively over a three-year period. The deferred balance is subject to interest payments at market rates. Interest and principal payments continue to be received as scheduled.

### **Equipment, Leasing and Finance Holdings Limited (EL&F)**

As well as the 1.98% of the ordinary shares held in EL&F, the Group holds a parcel of EL&F preference shares that, under certain circumstances, convert to a further 0.29% of the EL&F ordinary shares. As that conversion is dependent upon circumstances outside the control of the Group, the directors have previously taken the conservative view and assumed that the preference shares have had no value.

Information from EL&F is that the conditions to convert the preference shares to ordinary shares will be met, so the directors assessed that the fair value of the preference shares at 30 June 2019 should be \$1.50 per share, which is the same value as the existing EL&F ordinary shares at 30 June 2019. This resulted in an uplift in the carrying value of this investment of \$344,000.

### **Speirs Nutritionals Partners LP (SNP)**

The licence owner has terminated their exclusive license to the omega-3 encapsulation technology sold to them in 2009. The Board of SN Management Limited as General Partner for Speirs Nutritionals Partners LP (SNP) have concluded that any other customer leads that had been pursued are not certain enough to have any realistic expectation of future financial returns and have made the decision to wind up the business.

The outcome is very disappointing after considerable investment and effort by everyone involved.

### **Financing**

The principal borrowing of the group parent, Speirs Group Limited, is \$2.5m of redeemable preference shares that mature in September 2021.

In the 2019 year the parent received funds from further payments from the sale of its interest in Rosa foods and funds from the sale of the 33% interest of the Foods business. These funds are presently being held towards the redemption of the redeemable preference shares in September 2021.

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 further improving from 42.2% 47.6%.

### ***Board and Management***

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

David Speirs and I retire by rotation this year and offer ourselves for re-election.

The Board of the new General Partner for Speirs Foods (2018) LP has been myself, Fred Hutchings and Ross Kane. Earlier this year I signalled to the Group Board that I wish to retire from the Board of Speirs Foods. I believe it is timely to revert back to having separate chairs for the Group and Foods boards and

also to look to the future, time to bring an external director on to the Foods Board with specific skills and experience in the FMCG sector. Accordingly, as of today, I have retired from the Board of Speirs Foods GP Limited. Fred Hutchings has agreed to become the Chair and we have commenced a process to appoint a new director.

Both boards have continued to work effectively over the last year 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.

### **Dividend**

While the position of the Group has improved, the Board considers it prudent to preserve cash for further debt repayment 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 continues. 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 or divestments may be applied to returning cash to shareholders.

We note that recent trading of Speirs Group shares, albeit at very low volumes, continues at a large discount to the net asset backing of those shares which was approximately 32 cents per share at year end.