

SPEIRS GROUP LIMITED 2020 AGM Chairman's Speech

I am pleased to report to you a summary of our results to 30 June 2020 and an update on Company and Group affairs since that date.

The world is certainly in a different environment than it was 12 months ago, and like many other businesses, the global Covid-19 pandemic has impacted on the operations and investments of Speirs Group.

Overall Results

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

	2020 \$000	2019 \$000
Speirs Foods/Speirs Foods (2018) LP trading profit/(loss) before interest	1,209	494
Corporate Income	-	88
Fair Value Gain/(Loss) Through Profit and Loss Financial Assets Equipment, Leasing and Finance Holdings Limited	(249)	344
Formation Costs of Speirs Foods (2018) LP	-	(109)
Corporate governance costs	(288)	(282)
Net financing costs	(326)	(323)
Depreciation Expense of Speirs Foods Limited/Speirs Group Limited in relation to acting as landlord for Speirs Foods (2018) LP (8 months in 2019, 12 months in 2020)	(107)	(71)
Total Profit	239	141
Profit attributable to non-controlling Interest	(269)	(49)
Overall profit/(loss) attributable to ordinary shareholders of Speirs Group Limited	(30)	92

The Group reported a small loss after deducting the impact of non-controlling interest of \$30,000. This compares to the previous year profit of \$92,000. The two major impacts on the result were an improved result from Speirs Foods offset by a reduction in the carrying value of Equipment Leasing & Finance.

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.

The trading profit for the year before interest was \$1,209,000 compared to \$494,000 for the previous period, a pleasing improvement.

Improving manufacturing efficiency and productivity by using just in time techniques, improving factory layout and investing in modern more efficient plant has been a big focus for management this year and these initiatives together with growing sales have contributed to the improved result.

Even though Speirs Foods was an essential business and traded safely and in compliance with all Covid-19 operating rules during all Covid-19 alert levels, our sales reduced significantly particularly during level 4 lockdown. Additionally, we incurred inventory loss due to immediate order cancellations by customers as they worked through their own response to uncertainties created by the Covid-19 lockdown. Fortunately, the company qualified for the initial Government funded wage subsidy which enabled us to maintain our staff capability on their normal wages throughout the downturn in sales and revenue. This allowed us to avoid releasing staff that would have been surplus to the staffing levels needed during this period and enabled us to quickly scale back up production once demand picked up.

Over recent months sales have recovered but not are not yet back to pre-lockdown levels. We have also noticed an accelerated trend of consumers switching to pre-pack products from bulk salads sold from “under the glass” in the supermarket delicatessens.

As a result, Speirs Foods has accelerated its product development to increase the range of pre-pack salads and has recently committed to capital investment to improve the efficiency of pre-pack production. This capital investment is

being funded from a loan obtained through BNZ on very favourable terms as part of the government Covid recovery investment scheme for small and medium businesses.

The Speirs Foods business is also under cost pressure as a number of suppliers have recently notified significant price increases, some due to increased operating and supply chain costs arising out of Covid requirements.

The current year will continue to be a challenging one for Speirs Foods as it responds to both the demand side and supply side impacts from Covid-19

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

Speirs Group holds 1.98% of the ordinary shares in EL&F, and a parcel of EL&F preference shares that, under certain circumstances, convert to a further 0.29% of the EL&F ordinary shares. It is expected that the conditions to convert these preference shares will be met and they are thus valued at the same price as the ordinary shares.

The holding value of our interest in EL&F was reassessed as at 30 June 2020 based upon a detailed study of the EL&F performance prior to the lockdown, the immediate impact of the lockdown, recovery following the lockdown and projections through to June 2023. This resulted in the holding value of the of the EL&F ordinary shares and preference shares, being reduced from \$1.50 to \$1.36 per share.

The strong post-lockdown recovery in the New Zealand economy since 30 June 2020 has been reflected in the performance of EL & F which in the short term has been trading satisfactorily. However, the continuing risks to the global and local economy from the Covid-19 pandemic remain a risk to future performance.

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 with the final payment due on 31 March 2021.

Financing

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

In the 2020 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 for 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 47.6 % to 49.0%.

In September 2021 the Redeemable Preference Shares (“2021 RPS”) amounting to \$2,500,000 (held by 23 holders) mature and are due for repayment. Current cash flow forecasting (including the utilisation of existing bank deposits) indicates that the Group will likely need to refinance between \$1,500,000 and \$1,700,000 of these 2021 RPS when they mature in September 2021. The current intention is to make a new offer of Redeemable Preference Shares on similar terms and conditions to the maturing 2021 RPS in 2021 to existing 2021 RPS holders and other eligible investors.

Based on initial indications from existing Redeemable Preference Shareholders a judgment has been made that the maturing Redeemable Preference Shares will be successfully refinanced to the extent required in September 2021.

Board and Management

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

Fred Hutchings retires by rotation this year and offers himself for re-election.

The Board of the General Partner for Speirs Foods (2018) LP is Fred Hutchings (Chair), Ross Kane and Sarah McCormack, who joined the board in February this year. Sarah has extensive senior management experience in food and produce businesses particularly in sales and marketing functions.

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.

I would like to especially acknowledge the extra efforts that the staff and directors have made in responding to Covid-19. In a rapidly changing market and operating environment everybody stood up and provided considerable additional effort to enable the business to continue operating safely and effectively and respond to the needs of our customers.

I would also like to take the opportunity to recognise the contribution of Trevor Roberts who recently passed away. Trevor was director of the Group for 21 years from 1990 until he retired from the Board in 2011. Trevor was a valuable member of the Board and he continued to maintain a keen interest in the affairs of the Company following his retirement and has been a regular attendee at our AGMs. Our sympathies go to Marilyn and her family on the loss of a much-loved husband and father.

Dividend

While the position of the Group has improved, the Board considers it prudent to preserve cash in readiness for next year's Redeemable Preference share redemption 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

The world economy is in a fragile state as a result of the Covid-19 pandemic and while the New Zealand economy has recovered well to date, recent increases in global infection rates in other countries show that risks from another wave of Covid-19 infections and resultant restrictions on the economy remain a real risk.

It is pleasing to see the improvement in Speirs Foods profitability in the previous year, but the year ahead will be challenging for the business as it will respond to the sales mix, volume and supply-chain cost impacts coming from Covid-19.

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 again that recent trading of Speirs Group shares, albeit at very low volumes, continues at a large discount to the net tangible asset backing of those shares which was approximately 31 cents per share at year end.



Annual General Meeting
16 November 2020

Financial Overview

	2020 \$(000)	2019 \$(000)
Speirs Foods Profit before Interest	1,209	494
Change in Fair Value		
• Equipment, Leasing & Finance	(249)	344
Formation Costs of Speirs Foods (2018) LP	-	(109)
Net Financing Cost	(326)	(323)
Corporate Expenses incl Refinancing	(288)	(282)
Recognition of Future Income Tax Benefit	-	-
Depreciation as Landlord	(107)	(71)
Total Profit	239	141
Profit attributable to non-controlling interest	(269)	(49)
Total Comprehensive Income	(30)	92

2020 Key Points

- A solid year from Speirs Foods despite impacts of Covid-19 lockdown. Ongoing impacts on sales following Covid-19 lockdown and restrictions in both volume and product mix.
- Speirs Foods continues to rapidly deliver new products in response and has also embarked on a significant capital expenditure to improve capacity and efficiency of pre-pack products.
- The Equipment, Leasing and Finance business was also impacted by the lockdown and the expected ongoing impacts of Covid-19 and this resulted in a reduction being made in the carrying value of our shareholding. Subsequent trading is above those expectations but risks still remain.
- A reduction in the debt owed by the Group and improvement in cash position, resulting in an improvement in the ratio of equity to total assets from 47.6% to 49.0%



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The 2021 Year

- Challenges and risks from Covid-19 pandemic expected to continue to impact Speirs Foods and E L & F.
- Speirs Foods will have a challenging year as it adjusts to changes in consumer habits, delivery of new products and cost increases coming through.
- The Group will prepare for the refinancing of the 2021 Redeemable preference shares due to mature in September 2021.
- Future dividends are dependent on trading performance and cash position of the group.



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Formal Business

1. Consideration of the Annual Report and Financial Statements
2. Resolution 1: That Fred Hutchings be re-appointed a Director
3. Resolution 2: That the Directors be authorised to set the remuneration of the auditors
4. General Business



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