



CHAIRMANS' ADDRESS TO THE AGM OF KEMP & DENNING LIMITED 28TH SEPTEMBER 2016

I welcome you to the 93rd AGM of your Company and thank you for your attendance.

In my address to you last year I made the comment that we are in a competitive and ever changing landscape, and that comment was made in the context of what we knew or perceived at the time. Bunnings had in June 2015 opened their Showgrounds Store and we knew that they would proceed with their Kingston Store which was opened in June 2016. Whilst at the time, they had not formalised plans that they would build in Mornington that has since occurred. Bunnings also has a site, upon which they have not as yet built, adjoining our Devonport Store.

As the landscape changed, we undertook extensive external market research which indicated that the K&D brand was well regarded and trusted in our customers' eyes in terms of being locally owned and in business since 1902, and that our service and range were not generally seen as significant negatives. As part of protecting and transforming the business, we refurbished the Hobart Store, intending at the time to then follow up with Glenorchy. The impact of Bunnings on our southern stores has been greater than we anticipated or forecasted and whilst that impact was greatest on the Glenorchy Store, Hobart and Cambridge were also affected. Whilst the effect is basically on retail and not trade, the sheer amount of additional competition has also put pressure on margins across the whole business. On a year on year basis total revenue in 2015 was \$90 million decreasing to \$81.9 million in 2016. Trade revenue has remained relatively constant. When the Bunnings Mornington Store opens, at the end of this year, in the south of the State, there will have been an increase in Hardware Warehouse space from 34,000 square metres to 62,000 square metres meaning that an additional 28,000 square metres of selling space will have come into the market in 18 months. The reality is, that in a static market, that makes our business unsustainable in its' current format.

It is reasonable for you, as Shareholders, to ask what have we done about it, and what are we going to do. As indicated we undertook market research to better understand our strengths as a Brand, to merchandise areas of strength and to seek out areas of potential opportunity. Whilst based on that research a number of initiatives have been implemented, they have not translated into sales at the levels anticipated. Part of what we have done is to refurbish the Hobart Store, adjusted our range of stock, getting more into a whole of home solutions such as our revamped kitchen offer and pushing our service levels.



Whilst your Directors together with management have spent considerable time determining and developing initiatives to grow the business and we continue to do that, it is the view of the Board that we need to transform our business model so that it is predominantly trade focussed, and during the transformation the Board will review the trade model to determine whether its continuation will provide an adequate return to shareholders. During the transformation to trade and during the review process any assets that are not delivering a satisfactory return will be realised and excess capital returned to Shareholders.

Results

Sales revenue, with almost the entire impact being in retail, has decreased by 10%. Statutory Profit has decreased from a profit of \$243 thousand in 2015 to a loss of \$559 thousand in 2016. Underlying or trading profit in 2015 was \$1.9 million before we took impairment on the sale of the Giblin Street property of \$1.7 million, and this year whilst underlying profit was \$338 thousand we have taken impairment on the Brewster goodwill of \$897 thousand.

Neither an Interim nor a Final Dividend has been declared, and it is unlikely that a Dividend will be declared in the coming year as we execute our plans.

The Board

I inform Shareholders that Greg Woolley resigned as a Director on the 17th August 2016. During his short term on the Board Greg added considerable value to our considerations and on your behalf I thank him for his contribution.

Today I retire from the Board, having been first elected in 1993. When the Board reconvenes immediately after we adjourn, your Directors will elect Greg Goodman as Chairman for the coming year with Charles Kemp continuing as Deputy. Greg has extensive hands on business background and is an experienced Director and Chairman.

Ray Brown

Chairman

28th September 2016