

HELLABY HOLDINGS LIMITED

Annual Meeting

2 November 2011

CHIEF EXECUTIVE'S ADDRESS:

Thank you, John, and good afternoon everyone.

*The new Hellaby*

As John has said, this past year has been a successful one for Hellaby. Despite the continuing tough economic environment and a spate of natural disasters, the group achieved a dramatic uplift in profit, margin and return on funds – and a much improved balance sheet. We've achieved this by focusing on building better businesses over the past four years with the cards we've been dealt in terms of the economy and portfolio.

The company has been credited with a remarkable turnaround, and that recognition is gratifying. However, we should declare at the outset of this presentation that we're now keen to be done with the past, and get on with creating a new future for Hellaby.

The turnaround has simply enabled us to get to the starting line in good health. We now have a unique opportunity to change our future.

Our vision is to be a leading Australasian investor based on the value we add to our portfolio; the returns we deliver to our shareholders; and the calibre of our people.

*Achievements this year*

Our results have been well documented in our annual report, so today I'll just cover the broad highlights.

Arguably our biggest achievement was a return on funds employed of 25%. This critical productivity and performance measure was well up on the previous year's 17% and exceeds our internal target of 20% for the first time.

The group generated \$35 million free cash flow for the year. And since July 2007 when this Board and management team began Hellaby's reform process, we've generated a total of \$150 million free cash flow, which we believe to be an outstanding achievement.

I'm very proud of the solid performance improvements in our Equipment and Footwear divisions, which have overcome significant legacy issues and a hostile economic environment. AB Equipment

and Number One Shoes' achievements are especially notable as their management teams are relatively new. The Footwear division's generation of almost \$12 million free cash flow on just over one percent same store sales growth is extraordinarily good, and shows how much better our businesses have become at 'doing more with less'.

These companies still have to achieve further improvements, but they are now in comparatively excellent shape.

Our group net profit after tax (NPAT) improved by 49% to \$15 million as our restructuring and debt reduction started to bear fruit. Trading EBITDA improved 23% to \$34 million despite weak revenue growth of only 2.5%. Our businesses have become so lean that small sales increases are now resulting in disproportionate profit improvement.

We cut group net debt by 67% to \$24.5 million, following last year's rights issue and continued balance sheet reform. Our gearing, measured as debt to debt and equity was 15% at 30 June 2011, down from a high of 65% four years ago. We now consider our four year balance sheet reform to be successfully completed and our shareholders are reaping the benefits.

#### *Shareholder returns*

All actions and behaviours of the Board and management team are ultimately centred on the goal of long-term value creation. Total shareholder return is a key indicator of shareholder value growth, and is measured by the movement in share price plus gross dividend per share during the year. Hellaby's goal is to consistently generate total shareholder returns superior to the benchmark NZX50 Gross Index.

I'm pleased to report Hellaby is continuing to track well against this target, in line with improving company performance. Total shareholder returns for the year to 30 June 2011 were 87% compared with 39.5% in the prior year. This compares well against the NZX50's Gross Index return of 16% for 2011 and 6% for 2010.

It's also satisfying to note that our shareholders are continuing to invest in the business. Over the last year the average shareholding of Hellaby's 7,700 shareholders increased by 69%.

This follows a number of initiatives including our Dividend Reinvestment Plan, last year's rights issue and this year's Small Shareholder Plan, which have collectively improved the liquidity and efficiency of our share register. Hellaby will continue to work towards improving share liquidity and attracting greater institutional investment in the company, which will also deliver value to existing shareholders.

#### *Investment approach*

Having successfully turned around our performance, strengthened our balance sheet and improved stakeholder confidence, we now have the opportunity to reshape and grow Hellaby's portfolio into a more attractive mix of investments.

Our investment strategy 'Buy, Build, Harvest' is a key part of Hellaby's strategic framework which we created three years ago and recently reviewed so it now looks out to 2015. This framework identifies the company's longer-term vision and goals and the strategic initiatives and outcomes needed to achieve those goals.

As we're now in a position to recommence the 'Buy' component of this strategy, in recent months we've been actively pursuing potential acquisitions which will enhance shareholder value. All opportunities are evaluated according to the return on investment and valuation criteria identified in the strategic framework.

The updated 2015 plan identifies how we see our future portfolio mix and includes a number of key focus areas which I'll now briefly share with you:

1. *Australia*

Each of our subsidiaries has achieved a market leading position in New Zealand in their respective sectors. Our medium-term focus will be on the wider Australasian market, to achieve better scale, growth and market diversification. We are wary of Australia, but we're not afraid of it. We clearly understand the pitfalls of Australian expansion, but we can equally see opportunities. We will be cautious and sensible – but Australia is now on Hellaby's investment radar.

I would expect that up to one third of our revenues and assets may be Australian by 2015.

2. *Bolt-on acquisitions in Automotive and Packaging*

We view the automotive parts and packaging sectors as having long-term investment appeal for Hellaby, and these divisions are performing consistently well, with return on funds, profitability and margins consistently at or above our internal targets. We also understand these industry structures and believe that there are attractive niches on both sides of the Tasman which could justify further investment. We'll initially seek bolt-on acquisitions to complement our existing automotive parts and packaging subsidiaries and have actively looked at a number of automotive and packaging opportunities over recent months both in New Zealand and Australia. At some stage soon, we should begin acquiring.

3. *Review of Equipment and Footwear*

We're happy with the improving performance of our equipment and footwear retail divisions. These subsidiaries were badly impacted by the recession, and generally not well prepared for the recent economic downturn. We admire the capability of our management teams and are confident that these businesses should soon meet our challenging internal targets. Hellaby will continue to invest in organic growth opportunities for the equipment and footwear subsidiaries we currently own.

We're nonetheless uncertain about the strategic appeal of further major investment in these sectors. Over the next two years, we will review the long-term shape and composition of Equipment and Footwear, including the mix of businesses within each division, the segments and markets in which they operate, where they fit in the value chain for each sector and our optimum investment levels. This may or may not ultimately result in some form of

divestment, however if this was to occur it would be as the result of a thoroughly considered process.

At its heart, Hellaby is a portfolio investor, and we'd be remiss not to ask these strategic questions of ourselves.

4. *Organic growth*

Quite apart from acquisitions, we're continuing to target organic growth opportunities across all our businesses, with the simple goal of growing faster than the markets we participate in. Organic growth is significantly more difficult in a recession, particularly when your business is already number one or two in its chosen market. However, we're passionate about achieving organic growth and this is reflected in the ambitious sales growth targets we set for our subsidiaries, particularly this year for Elldex Packaging and AB Equipment.

5. *'New sectors'*

We're also aiming to invest in one or two new industry sectors over time, probably in the automotive, industrial or distribution sectors. A key investment criteria for any new sector will be the long-term attractiveness of the industry structure and availability of acquisition opportunities. Another factor will be Hellaby's preparedness to invest trans-Tasman should the right opportunities arise. We know from experience that a New Zealand-only sector approach can result in Hellaby reaching an early critical mass in terms of market share, and yet our overriding aspiration must be enduring, profitable growth.

6. *Investment approach*

Our investment approach will be patient and selective. We're not interested in acquiring simply to demonstrate traction, and we'll only make acquisitions if we believe they will create shareholder value. To date, while we've participated in several acquisition processes, we haven't secured suitable targets at valuations which meet our investment criteria, but we're continuing to actively assess many opportunities.

Hellaby will take a similar approach in considering the opportunistic divestment of assets for value.

This management team and Board prefers to have an asset portfolio based around clear - albeit broadly defined – sectors which we believe is more appropriate for a listed entity than the more eclectic portfolios common in private equity and the Hellaby of old. Whilst we'll have a variable investment horizon, we prefer longer-term ownership of our assets which gives us an appropriate timeframe to build and lock in sustainable value for shareholders.

To summarise, I have four key messages for our shareholders thinking about our future investment strategy:

Firstly, we have been working to a clear strategic plan for some time.

Secondly, we believe the company has now earned the right to grow again.

Thirdly, shareholders should expect Hellaby's portfolio to evolve significantly over time.

Finally, we are now 'ready to go'.

## *People*

None of our recent achievements would have been possible without our 2,200 employees, who have worked exceptionally hard in combating the difficult economic environment and natural disasters to rejuvenate business performance.

Over the past four years, we have strengthened our subsidiary management teams, who in turn are achieving positive returns from the initiatives they've driven in their businesses. Of the Hellaby group's top 70 managers, 40 percent have been newly appointed in the past four years. The other 60 percent were already solid performers who have embraced and driven the significant internal culture change that was needed.

We strongly believe that a differentiating performance factor for a diversified conglomerate such as Hellaby needs to be the quality of its leaders. I hope that in four years time when investors comment on Hellaby, they firstly describe us as having the best management teams around. To achieve this - and given our aim to grow and reshape our portfolio through acquisitions - we must further strengthen our bench with talent.

A leadership development programme is currently being undertaken to develop the group's talent pool to succeed and lead in the future. While this leadership development programme will require a considerable investment of time and cost over several years, we believe it could be the best quality investment made by Hellaby's Board and management on behalf of its shareholders. We view leadership development as key to building better businesses long term, and believe we can already demonstrate a strong correlation between performance and the quality of our people.

One requirement of our leadership development programme will be succession planning across our senior management teams including the executive team.

The prospect of switching our strategic focus to growth after four hard years has immense appeal to the Hellaby team and we're excited by the opportunities ahead. I have indicated to the Board that I'm keen to lead Hellaby through this next phase of our strategic plan— which is at least through to the end of 2015. Obviously my tenure is subject to performance.

From a planning perspective this commitment will enable the company to develop a timely and relevant succession plan for the group chief executive position at the appropriate time. It also gives us time to strengthen our bench with additional talent and to grow Hellaby profitably over the next four years with the confidence that there will be continuity and a clear succession plan.

## *First quarter FY2012*

The first quarter of this new financial year has been tougher than expected, albeit that our first quarter profit is on target and ahead of last year.

The New Zealand economy remains incredibly sluggish. In fact, it feels as if the economy is simply holding its breath, particularly with regard to discretionary and consumer spending. Fortunately, in

terms of 12 month seasonality, Hellaby's first quarter is traditionally by far our smallest quarter, representing less than ten percent of Hellaby's annual NPAT. However we will need to see some gusts of wind shortly.

### *Outlook*

As we said in our annual report, Hellaby is 'ready to go'.

Our immediate operational focus is to further improve the profitability of our Equipment and Footwear businesses and to grow Packaging revenues. Hellaby's fundamental short-term performance issue for the group overall is still the flat economy and its corresponding impact on sales.

We believe that trading conditions will remain challenging throughout the remainder of this financial year. Sales growth should be better for our Equipment and Packaging divisions than for our more mature Automotive and Footwear divisions which rely more on discretionary spending. This is because the heavy equipment sector is now starting to recover from a very low recessionary base which should positively impact AB Equipment. Likewise Elldex Packaging is targeting Australian market share growth and further key account growth in New Zealand.

Shareholders should note that future Head Office costs will increase in the areas of group insurance, leadership development, the long term incentive scheme and acquisitions. The company has not incurred substantial merger and acquisition costs over recent years and the quantum is at this stage uncertain. However Hellaby must invest to grow and will need to do due diligence on acquisitions – some of which may not come to fruition. We are simply flagging this to shareholders now, so as to be up front that our cost base will likely increase, although with the expectation that this should generate future earnings growth.

Nonetheless we expect this current financial year's operating profits to be higher than the previous year.

We realise that the New Zealand economy may remain anaemic for some time. On the flipside, this means that value accretive acquisition and investment opportunities are now more likely to occur. So as we've done for the past three years, we intend to ignore the state of the economy and get on with reshaping our portfolio with a mix of assets which have solid potential for future shareholder value growth.

We remain positive about the company's future and believe that this is an exciting time for Hellaby.

As always, thank you for your support. I will now pass you back to the Chairman.