CHAIR'S ADDRESS TO THE 105th ANNUAL MEETING

Ladies and Gentlemen,

Today I want to discuss our results for the 30 June 2023 financial year, followed by a high-level look at the New Zealand automotive market environment and our prospects for the current financial year.

Financial results

You will recall that this time last year we celebrated a record Group result. That result was always going to be a hard act to follow. The trading profit after tax for that year was $33.3 million, leading to a record dividend of 62 cents per share. How do you follow that up in a market where the artificial stimulus has passed and been replaced by negative tax imposts affecting your strongest market segments and a weakening tractor market driven by softer primary produce returns. Inflation and interest costs were also on the rise.

The answer is you stay very focused, you trust your people to take the hard decisions and to embrace the opportunities to maximise every vehicle sale. You also identify cost reductions to offset the growing impacts of inflation. We can therefore be equally proud in delivering the second highest profit result and dividend in this last financial year.

As announced, the trading profit after tax for the last financial year was $30.3m, down 9% on the prior year. We were able to pay a full year dividend of 57 cents per share. The passenger and light commercial markets were heavily impacted by disruption from the clean car rebate and ute tax announcements that softened enquiry. During this time, we were fortunate to hold strong order banks for popular models, including the next generation Ford Ranger and Everest. This was partnered by the continued solid demand for heavy trucks, as improving supply lines of Kenworth and DAF started to bring long awaited pre-ordered and sold product to New Zealand.

It needs to be remembered the trading profit after tax included a $2.5 million write down in property values, with a further write down of $2.5 million taken through reserves. Together, this $5.0 million write down in overall property values mirrored the across the board fall in New Zealand property values that occurred in 2022 and 2023.

Our thanks and appreciation for this result should be directed to Alex and his Team, especially our dealer principals for again delivering a strong result for your Company.

Market conditions

The market and trading environment for new cars and light commercials was a stop start affair, driven by tax incentives that created short term high demand, followed by the inevitable significant collapses in that demand. June 2023 was the most recent example, where that one month was the biggest June new vehicle sales month on record, only to be followed by the smallest ever monthly July market. If you look at the twelve months of the June 2023 year, the total light vehicle market was 9.5% down on the prior year, at 105,889 units, but that was still a reasonably healthy market.

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Tractors was very much a year of four differing quarters for the rural sector. The last quarter was heavily impacted by souring primary product returns in dairy and red meat and a lack of confidence generally. The sector was eagerly awaiting an election result that might 'pump some air into their tyres'. That last quarter to 30 June saw a near total collapse of spending by rural New Zealand. We were fortunate Agricentre had performed so well over the previous three quarters to still finish the year with a positive result.

The heavy truck business enjoyed solid trading, although somewhat limited early on by international supply chain disruptions that saw truck deliveries delayed, in some instance by up to a year and more. More recent relief from those supply chain constraints has seen an increasing commitment to truck inventory and the related pressure on Southpac to process those trucks through the body builders and deliver them to the customer. This challenge has carried forward to the current year and Southpac is delivering consistently strong truck sales month after month.

Property

We have delivered significant progress from our facilities programme by concluding redevelopments at Avon City Ford (in Christchurch), Timaru Motors and Dunedin City Motors. In these more constrained times, we believe it is prudent to trim our facility capital commitments as construction costs climb. That said, we still have significant long-term projects on the books for a Ti Rakau Drive facility in Auckland and for the most recent land purchase at Palmerston North to support heavy vehicles in the region. We also have commitments to redevelopments at Masterton and Waipukurau.

Governance

I would like to make some general comments on the subject of the Board and managerial governance of your Company.

First and foremost, we know our Shareholders want the Board and Management to remain clearly focused on the financial strength and performance of the Company. This is to ensure it continues to provide the solid returns that underpin the dividend stream you expect from your investment.

Together with the Company's other regular formal reports, each annual report advises of relevant policies that have been updated, newly introduced or to come. The 2023 annual report was no different. It advised of the protected disclosures policy, which relates to the whistleblower legislation, and the adoption of takeover protocols. It also confirmed that, to meet the extensive legislative requirements, the first climate related discloses would be made in the 2024 annual report. The work on the climate disclosures commenced some two years ago and June Gibbons has been deeply involved with the participating government and industry bodies - totally unsung work but now normal practice for any public company. June will cover some of that work later in the meeting.

Reporting on risk management has been a feature of annual reports for many years. The most important and informative item of this reporting is the confirmation that "throughout the year the Board and Management review the 'whole of business' risk matrix which has captured the short and long-term risks for the Group.". Note 27 of the Financial Statements provides the detailed information on financial risks and their management.

Initiatives in the health and safety space are driven by the desire to care for our people and keep them safe in their working environment. Yes, there is an ever-increasing regulatory environment affecting health and safety, but the fact is it is just the right thing to do for our people. As a Board, we are particularly pleased with the progress the Company and our dealership operations have made in this space but there is always more to do.

The Board understands the NZSA has its own agenda and preferences beyond what is required by the Listing Rules, Regulations and Legislation. The Board has always been open to feedback and reviewed the NZSA report at our meeting yesterday. In areas where we believe we can widen our disclosures and they are in the best interests of the Company and our Shareholders, this will be done.

Near Term Outlook

Over the past two years, we have made regular mention that our wider operating environment is undergoing change. Elements of this change have arrived and we are seeing that change at dealership level.

There is not the level of enquiry on light vehicles but we are not yet convinced the new vehicle market is heading in only one direction. Even though we have had an election outcome that, in theory, should bring a more positive outlook and a more business friendly environment, it is far too early to see it translate into a lift in business confidence.

There continues to be negative economic pressures that may see the weaker demand environment continue for a period. We do know the new Government has committed to repeal the clean car incentive and ute tax. That is materially delaying purchases of our popular ute and SUV product until those changes take effect, likely now into the second half of the current financial year. As well, the geo-political environment is worsening with developments in the Middle East and that has the potential to impact fuel prices, which thankfully has not manifested to date.

Closer to home, the general sentiment seems to be that higher inflation is going to be here for longer. With that, interest rates will remain elevated and the Company is not immune to these impacts. That lack of confidence in business in general is most obviously reflected in the agricultural sector and a lift in confidence in that sector is critical to New Zealand and to the turnaround in our tractor dealerships.

The bright spot is the strong order bank for heavy trucks and we are committed to the inventory levels that will capitalise on that demand. The reality is these big Kenworth and DAF trucks work hard and regardless of their recognised and proven performance and reliability; they eventually wear out. Southpac has a loyal customer base who want and need these trucks to make their businesses work.

Overall, the Company is experiencing a mixed trading environment so far in this financial year and that is likely to carry through to the calendar year end. It will not be until well into the first quarter of 2024 that we will have a clearer understanding of the direction of travel for the current financial year. It will be a real challenge to deliver a result at the level we have enjoyed for the past two years whilst the ‘cocktail’ of head winds and regulatory uncertainty continue.

Let me finish these comments by passing on my personal thanks to our Board, Alex and his Management Team across the Group. Most importantly, thank you also to our Shareholders and commercial partners for your support in remaining loyal to the Company.

A J Waugh
Chair
The Colonial Motor Company Limited

10 November 2023