

# *The Colonial Motor Company Limited*

---

## **CHAIR'S ADDRESS TO THE 106<sup>th</sup> ANNUAL MEETING**

Ladies and Gentlemen,

In this address I want to discuss our results for the 30 June 2024 financial year, take a high-level look at the current state of the New Zealand automotive market and then where we see our prospects in a market environment that has significantly changed.

### **Financial results**

CMC Shareholders have enjoyed an extended period of exceptional returns over the last decade or even longer. This coincided with the new vehicle market posting year-over-year growth as the favourable trading environment continued. At times this was boosted by artificial intervention and stimulus as a result of Government policy, but it mainly arose from the Company having leading market brands and a continuing pipeline of new models coming to market at the right times.

Our dealerships continued to grow as they focussed on increasing customer satisfaction across all our product ranges and in our parts and service support business. We certainly made the most of this positive trading environment and as you well know, it culminated in a record profit in the 2022 financial year when light vehicles, trucks and tractors all fired at once. That \$33.3m Trading Profit and record dividend payout was the reward Shareholders were delivered for their support and loyalty.

That trading environment has changed significantly since then and we are being challenged, especially in the tractor business where an economic downturn always results in farmers misplacing their wallets. The pullback was also seen in the light vehicle dealerships and we have recently seen some softening in our truck operations, although they have continued to process good volume on a monthly basis.

The 2024 light vehicle market year-to-date is down 16.7% on the prior year. This at a time when new vehicle product availability has freed up considerably and many importers have seen record inventory coming to market. There is certainly stressed selling activity happening in the industry and this behaviour has a cascading impact on the market, particularly the new vehicle industry.

By the way, that near 17% decline I mentioned in the current calendar year follows the 2023 year being down 9.5%. These are not only seismic declines in volume but also a complete reversal of conditions experienced over the prior decade.

As an interesting aside, within this general market decline the Ford Ranger, Everest and Transit were some of the very few vehicles to post stronger sales than the prior year. While driven to a degree by rental vehicle sales, it has also been driven by our committed dealer group.

This stressed vehicle environment makes it tough for our dealers to navigate their way through increased inventory levels, the market share expectations of our franchise partners and having to reduce their cost bases to a new 'normal' in terms of market volume.

In the tractor business it is manifestly apparent that high interest rates have smashed demand for new tractors and equipment to a level not seen for many years. The market essentially halved overnight for us in the deep south. Even though the dairy payout forecast is favourable, the negative state of the red meat sector, massive increases in on-farm costs and the spectre of continuing interest rate burdens has seen the lights turned out by many of Agricentre's traditional customers.

Agricentre is continuing to secure its share and more of the limited action that is out there and I thank Grant Price and his Team for this effort. Unfortunately for them the reality is they have been swimming against a significant tide but it is a tide that will eventually turn.

So, within this rather bleak portrayal of the market environment the financial result for 2024, at a Trading Profit of \$17.9m and the resultant total dividend of 35cps, is possibly better than expected. My description of the market is very much focused on the back end of the financial year, as we traded reasonably strongly in the first six months to 31 December 2023. As of now we are challenged by the environment I have outlined to you.

Our safest course of action, which we have been following for some time, is to re-build our profitability based on the market we see in front of us; not wait until the market comes right or returns to normal. This is our new normal and we must deliver satisfactory shareholder returns based on what is in front of us.

Our dealerships reacted quickly and are well on the new journey but not all are not there yet.

Our thanks and appreciation for all that has been achieved is directed to Alex and his Team, especially our Dealer Principals and their management teams for again delivering in an increasingly challenging environment.

## **Property**

As the economy tightened, we made the prudent decision to slow and defer some of our property developments. We have maintained progress on the very important initiatives around Southpac Trucks in the lower north Island and the facility re-build in Masterton, which is essentially an all new look for that dealership.

We are diligently progressing our enhanced representation options for Ford in Rangiora, a significant growth corridor north-west of Christchurch.

## **Governance**

Last year the Shareholders' Association gave us a 'fail' rating in some areas of our governance disclosures.

First and foremost, I want to re-iterate that we know our Shareholders expect 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.

I made a commitment at our last Annual Meeting that the Board would review our disclosures and public facing material and this has been done. We have broadened the website disclosures in a number of areas and of course this year is our first year reporting on Climate Related Disclosures. I want to acknowledge the extensive work done in the CRD area over the past two years that has been led by June Gibbons. This has enabled the Company to be fully compliant in terms of its reporting obligations under the CRD regime. It has been a huge journey, so thank you June and the Group Office team.

We have no doubt that climate change is a real issue. Equally, I am confident the work we carry out in our annual risk reviews was meeting the need to identify the risks to our business, be they short, medium or long term, as this is not new to us. The team's work has been thorough and I have to say that there are elements of the process and their detailed requirements that were onerous and bordered on being of no real benefit to anyone – company, shareholders or stakeholders in general. We can only hope that common sense prevails and the reporting requirements are thoroughly reviewed and re-focused on only 'stuff' that actually matters. There is no benefit to CMC Shareholders to add cost for no material benefit.

## **Near Term Outlook**

I've given you a graphic and purposely negative picture of the trading environment our businesses have experienced and continue to face. The six months we are currently in remains 'tough' as we sort our way through cost reduction requirements across the Group. This is an over-supplied so over-competitive market, where some of our competition are 'moving the metal' just to keep cash flowing. The market and the economy remain flat at best. At our core, CMC is a 'new vehicle' retail and service business that rides the wave of consumer confidence and discretionary income.

Our view of the forward market is dominated by the immediate economic issues we can all see. New Zealand should not underestimate the potential disruptive influences that lurk off-shore and the potential for further supply chain disruption from global conflicts. These could impact exchange rates and oil prices at any time – one gets the feeling we are inches from that in the Middle East.

So here are some comments you won't hear from me today:

- green shoots
- I think the worst is over
- lower interest rates will solve all our challenges

We could catastrophise on many fronts but I prefer to go back to what I said earlier. We must continue to be the architects of our forward performance and it is up to us to make the changes necessary to create the success needed to reward our Shareholders. We have a strong product and brand portfolio and we have new product to bring to market. These basics have held us in good stead over the years and I know this is what Alex and the Team focus on.

Let me finish by passing on my personal thanks to our Board and to Alex and his Management Team across the Group. Most importantly, thank you also to our Shareholders and commercial partners for your support and continuing loyalty to the Company at all levels.

A J Waugh  
Chair  
The Colonial Motor Company Limited

8 November 2024