

# *The Colonial Motor Company Limited*

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## **CHAIR'S ADDRESS TO THE 104<sup>th</sup> ANNUAL MEETING**

Ladies and Gentlemen,

It gives me great pleasure today to celebrate the Company's record result that was announced to shareholders in August. Trading profit after tax for the 2022 financial year was \$33.3 million, up 19% on the prior year. A record dividend of 62 cents per share was paid to shareholders, which equates to 61% of the trading profit after tax. Overall, this represents an exceptional and rewarding result for the Company and our shareholders and the credit belongs to our staff across the Group.

The market and trading environment for cars and light commercials, as well as trucks and tractors, was favourable for a good portion of the last financial year. However, the obstacles that needed to be overcome to capitalise on this strong demand were numerous and substantial.

The reality is that our people have worked incredibly hard, remained optimistic and as a result they excelled. Our DPs and their dealership staff have served the Company exceptionally well. This was particularly so during the very trying and testing covid affected periods and the cascading global impacts on supply and labour shortages. Alex and the new CMC leadership team have done an outstanding job, hitting the ground running from day one and bringing with them a gust of fresh air and enthusiasm.

### **Leadership Transition**

It has been challenging and ultimately pleasing for the Board to see through a 3-year program of leadership succession. Whilst trading conditions have been positive during this period, this in no way diminishes the enormity of the challenge for a new team to take over the reins of a large and complex business. At the end of the day, it is they and our DPs who lead the business and are charged with delivering the results. I want to personally congratulate Alex, Paul and June on their first year in their respective roles and thank our DPs for their support of these changes.

The cyclical nature of the auto business will bring us more difficult times but I am confident our new leadership team will respond with the same vigour they have displayed this past year.

### **Focus and Direction**

The Company has a robust balance sheet, a substantial property portfolio and long-term strategic partners in PACCAR, Ford, Mazda, Case New Holland Industrial and Kubota, along with some newer brand associations that we value highly and continue to foster. The new relationship with Case New Holland Industrial has developed well since they assumed direct distribution from Australia of the New Holland and Case tractor brands directly into our Agricentre South dealership.

The Colonial Motor Company has a well-developed strategy and a focused management team with an eye for growth and who embrace change. Pursuit of growth and change are not sought at the expense of earnings quality and our long-term goal of delivering sustainable profits and dividends. We take a cautiously optimistic approach that prudently manages the balance sheet, allowing the company to grow alongside our existing partners, to take on new opportunities, while maintaining strong financial discipline, should we encounter more challenging times.

## **The Changing World**

Our world is always changing and without sounding too pessimistic, the mid-term economic outlook appears increasingly fragile. This is against a backdrop of sustained global unrest and stubbornly high inflation. These both have potential consequences for New Zealand and the global economy.

Economic stimulus, global events, low unemployment and restricted supply have provided favourable trading conditions for the last two years. Consequently, the social and economic price for persistently high inflation will eventually fall due. When this might happen and the severity of any impacts remain the topic of much debate, but history tells us the tide can turn quickly.

## **Electrification**

The global shift in direction to electrified vehicles is as much about reducing emissions as it is about competing and ultimately dominating a new era of technology. The race, to secure supplies of raw materials and increase production capacity to manufacture EVs, will continue to play out over the next decade. This race will likely, and frankly is, seeing the emergence of a number of Chinese brands as credible alternatives to traditional names, particularly in the value segments.

This search for value is not surprising, as the entry price for a new EV vehicle continues to be a significant step up from an equivalent internal combustion engine vehicle. This price 'shock' was expected to be moderated by improving technology and the benefits of scale as production ramped up. However, this expected reducing price scenario has been swallowed up by key raw material scarcity and its attendant increasing prices.

The brands we are partnering with are all investing in next generation product and technologies that will continue to come online over the course of the next few years and beyond. There will continue to be supply challenges, particularly on the availability of electric product globally and that will cause a few bumps on the road. However, for our staff and as a company, it is an exciting time embracing and preparing for a new era of automotive technology.

The New Zealand automotive industry is having to contend with targeted intervention via the clean car tax and the soon to be implemented, clean vehicle standard. The existence of clean vehicle policies is of benefit in the quest to secure a supply of electric vehicles. However, the haste to activate this new legislation, combined with very ambitious targets, has created a number of unresolved challenges for a small automotive market like New Zealand. This is proving a particular challenge in a world competing for a limited pool of EVs.

Risk remains around even further legislative changes to the just introduced clean car framework that might impact on the near term. This could affect the light commercial vehicles that tradies and farmers favour and rely on. The political climate is uncertain in this area and any move that impacts New Zealand's productive sector will eventually flow through to consumer confidence.

## **Near Term Outlook**

At this time in 2021, we forecast continued strong demand with the potential for disruption and ongoing uncertainty.

In September, when Alex wrote his Chief Executive's report, we were still in the aftermath of the clean car tax that came into effect on the 1<sup>st</sup> of April this year. The introduction of this tax inevitably front-loaded registrations of ICE vehicles into the first quarter of 2022.

As predicted, we have seen the new car market recover as the industry continues to fulfill a backlog of orders. From the 1<sup>st</sup> of January 2023, we are expecting to see-in the Clean Vehicle Standard (Importer side scheme). This will create another incentive to register vehicles before the deadline. We anticipate further disruption as importers grapple with the consequences of the legislation and adjust the vehicle mix and associated vehicle prices over the coming year, as they endeavour to strike the right balance and avoid the consequences of hefty penalties.

At present, demand for desired vehicles exceeds available supply and monthly sales are dictated by shipping arrivals. While enquiry remains strong, it is less than it was. This trend is expected to continue into at least next year, with the difference being the likelihood of an economic shock now appearing greater and the cost of doing business is on the rise. The increasing cost of living and rising interest rates are expected to further impact consumer confidence and take some wind out of the auto industry's sail. This as discretionary incomes come under increasing pressure.

Add to those pressures a weaker New Zealand dollar leading to significant retail price increases and early 2023 looks likely to be a more challenging trading environment.

Back to today and earnings for the first quarter of this year remained robust. With greater headwinds and continued uncertainty, it is not unexpected that we are tracking behind last year's record result. If we continue to avoid any major shocks then we anticipate a solid result for the current half year.

### **Directors**

Earlier in the meeting we dealt with the election of a new Director, John Hutchinson. This was brought about by the retirement of Matthew Newman from the Board with effect from the close of this meeting.

Matthew has served CMC for 36 years and been guiding our South Auckland Dealership representation over those near four decades. This was initially for Ford, then adding Mazda and more recently including Isuzu, Citroën, Peugeot and Suzuki. He has brought to the board table his energy and enthusiasm, experience and empathy. Always a strong performer at the dealership level gave Matthew the credibility to contribute significantly on matters of strategy, financial performance and people development.

Matthew, thank you for your contribution to CMC. You will long be recognised as an integral part of our history and DNA.

Let me finish these comments by passing on my personal thanks to the Board in my first year as Chair. Most importantly, thanks also to our shareholders for your support in remaining loyal to our company.

I'll now invite our CEO Alex Gibbons to address the meeting.

A J Waugh  
Chair  
The Colonial Motor Company Limited

11 November 2022