



2018 ANNUAL REPORT FOR THE TRUSTS (PORTAGE & WAITAKERE LICENSING TRUSTS)

Everybody in the Licensing Trust sector knows that the foundation on which the success of all trusts rests is public approval and we are very encouraged to report that our efforts in this regard have taken a major step change upwards in the last couple of years following a transformation of The Trusts that started in 2012.

This year reflects a number of positive aspects of our improving and expanding business and our diversification in terms of revenue streams. Above all, it reflects a truly spectacular success of the Million Dollar Mission and our desire to Give Back More. Million Dollar Mission (MDM) is a good example of us delivering on our promises. We have repeatedly stated our goal of becoming a significant benefactor to West Auckland and with Million Dollar Mission we have put words into action once again. We wanted to create a new form of Giving Back that:

- takes Giving Back beyond an occasional household distribution with a greater reach than our traditional sponsorships,
- tells the stories of charities and causes helping make West Auckland a better place to live,
- raises their profile and recognises their work and our part in supporting that,
- gives the community a big say in where the money goes in an engaging way.

With MDM, some of the worthiest causes in our community can publicly state their need for financial assistance and urge their supporters to vote for them as many times as it takes to reach their stated financial target. Since its inception around 30 causes each year have been supported, to scoop a share of \$1million every year. Each public vote earns that cause \$5 of our funding and it gives our community a role in funding their chosen causes without effort, by playing a key role giving back The Trusts money. Or to put it more exactly, by giving away money being raised by the liquor, hospitality businesses and investments of The Trusts.

We certainly engaged the public's attention with MDM last year; it took us 29 days to give away a million dollars in the first MDM in 2017. With public familiarity now well established, it took just 13 days for MDM2 this year, to reach the same milestone. To give back \$1million requires 200,000 votes from a community of about 250,000 people. To achieve that in just 13 days represents incredible cut-through to, and response from, our West Auckland community. Thanks for getting in behind The Trusts Giving Back.

This highly visible form of “giving back” means the public can see us working together with them to deliver good in the community. This is made possible by our retail and hospitality offerings. There is a powerful synergy that the public can participate in by literally connecting purchases from The Trusts, to voting in the MDM, to Giving Back from The Trusts. It couldn’t be any more transparent and it’s easy to see exactly where the money went - one needs only visit www.milliondollarmission.co.nz to see the impact those funds are having through your support. Of course, that’s our big obvious play in our “Giving Back” but it’s not all we do in that area to try and ensure we touch most sectors of the community across schools, arts, sport, facilities and community groups. We have supported via major sponsorships The Trusts Arena, the Waitakere Art & Sculpture Awards, Waitakere United, the Northern Mystics and locally hosted NZ Bowls Open as well as a number of smaller, yet valued sponsorships including Sport Waitakere Excellence Awards, Business After 5 (Waitakere Business Club), Rosebank Business Association, Don Oliver Youth Sport Foundation, Life Education, Toddlers Day Out and West Auckland Hospice. We also contribute towards academic prizegiving at numerous West Auckland schools. Locally, many West Auckland organisations (such as sports clubs and RSAs) have been supported to the tune of over \$100,000 again this year. Additionally, a large number of community-based organisations (such as schools, clubs, community groups and the like) enjoyed gifts, prize donations, vouchers etc via The Trusts this year, as we do every year.

Ultimately, public approval of what we do (retail, hospitality, investments and giving back) and the way we do it (a community owned Trusts model), is our most important “product”. This has to be delivered by The Trusts through the performance of our trading businesses in terms of customer service and meeting demands of a changing community on the one hand alongside the public good that we do by operating in a socially responsible way and giving back. These are intertwined and support one another through The Trusts model. We never take our position as a model chosen by the West Auckland community for granted. That said, we are facing a challenge from a group who have stated they intend to launch a referendum. Loss of The Trusts current model and position should be of significant concern to this community as it is to our Elected Members who are voted in by you every three years on your behalf as your stewards. They take that role seriously. Together with our commercial Board and management, we are an authentic organisation made up of people who care deeply about West Auckland and are devoted to the benefaction of our community both now and in the future.

Whilst we have developed a sound source of information on The Trusts, especially in terms of our website (www.thetrusts.co.nz) and “Our West”, our community-oriented magazine that circulates to every letterbox in our community monthly, we acknowledge we will need to do more going forward. We have used these methods for several years as a cost-effective, somewhat frugal means to tell the stories of our community, of The Trusts and our trading activities. More recently, we have used the Million Dollar Mission website (www.milliondollarmission.co.nz) and associated promotion to drive the awareness of The Trusts Giving Back and have been successful in terms of encouraging public participation in our Giving Back to West Auckland via the second Million Dollar Mission.

It’s true that we could do more to promote ourselves. We have had contact recently from people concerned about the impact of a referendum who suggest we should promote further the good we

do and ensure more people are better informed about the significant benefits The Trusts model brings for a community. If it came to a referendum we will work hard and spend accordingly to make sure our community is making an informed decision based on results, not conjecture or loose opinion. Obviously, we'd prefer not to have to spend that money promoting what the majority know is a great model with a history of making a difference in West Auckland.

We are taking this feedback onboard and we'll do more to "accentuate the positive" (to coin an old phrase) in coming months. You'll also hear more about our future benefaction strategy that has been a real focus for us to ensure we are able to meet our stated aim to 'Give Back More Forever' from the financial resources of both Licensing Trusts that serve West Auckland. Feedback certainly highlights a need to do more in the communications area to ensure those that want to be informed about The Trusts model have a reliable source of the truth about the difference a Trusts model makes to West Auckland.

Trading Highlights

Turning to trading, the revolution in our retail business that led The Trusts transformation continues to be well received by our community and our retail business continues to grow year on year, principally by way of attracting more customers through good retailing, investing in our team's knowledge and carrying a range of products beyond what many bottle stores stock. Growth in sales, customer count and basket size, together with category growth particularly in craft beer and a growing range of premium wine and spirits, contributed to our turnover and retail profit once again, reflecting in many regards we're getting it right. That reinforces the view of Hospitality New Zealand's Excellence Awards panel that have twice now in recent years given their endorsement by way of The Trusts winning Retail Store of the Year. We're not finished in this space, we have a new concept for our popular Village Wine and Spirits branded stores coming this year in Te Atatu. A new flagship store will be a proud addition to the town centre development underway and will sit alongside a very modern bar and eatery we're opening soon in Te Atatu Peninsula. Further new stores will be developed and opened where we can achieve a sound balance between providing for demand from customers, being profitable in order to give back and placing these stores in new or growing areas of West Auckland. Where we can we'll put these near supermarkets or neighbourhood retail centres to compliment the local shops with a conveniently located well managed bottle store under our West Liquor or Village Wine and Spirits brand. Right now we have some great new store developments underway at Red Hills, WestCity mall and Te Atatu Peninsula with plans well advanced for new openings before Christmas. Rosebank Road is also firmly in our sights with a call from the growing community of local businesses there to have a local store. As always thanks to the input of community Elected Members on each Trust we'll take a responsible approach to achieve the right balance between convenience, profit to give back and not having a plethora of liquor stores smattered all over the West.

We're also very proud to report our "100% right" standard of never selling to minors this year. Police and Licensing Inspectors of Council work across Auckland to regularly test us and other retailers and hospitality operators via 'underage sting operations' called Controlled Purchase Operations (CPOs). There's no question our record is second to none and well above the industry average. The results

reported in media regularly on CPO failures elsewhere in Auckland tell the story of where profit is put ahead of social responsibility.

Following on from the retail revitalisation is our more recent push to transform our hospitality offerings and to create a network of modern, profitable hospitality venues that rival the best in class of suburban Auckland bars. We will open these alongside other welcome offers of licensed restaurateurs popping up across West Auckland. Our overall strategy has been to dispense with dated businesses that did not, and could not, meet our expectations in terms of profitability to give back and favourability and thus we needed to remove the negative impact they may have had going forward. In place we're creating modern bars and eateries that will appeal to new and existing customers. Critical to the success of this strategy has been the recognition that one size does not fit all. Town centres create their own market niche and each of the venues we own is being tailored to meet that local demographic alongside other competitors where we sense there's an opportunity to create a modern profitable offering that suits a local need. We're not the only ones that can open new licensed venues of course and it has surprised some we've spoken to, that we welcome the arrival of others that are seeing opportunities in West Auckland's dining and nightlife. Whilst it is true the laws set by Government that govern the model voted in for by West Aucklanders mean The Trusts have exclusive rights over bars that operate a 'Tavern' licence, those laws also permit others to run licensed restaurants, nightclubs, sports club bars, pool and entertainment venues and obviously several RSAs that each provide a special place in our community too.

Our work to reposition ourselves in this changing hospitality market has brought about much needed growth in our hospitality profitability in the last year to ensure we have the funds required to update and upgrade venues going forward alongside giving back now and in the future. That said, the hospitality sector in New Zealand has a high failure rate and there's nothing that prevents anyone (including The Trusts) from losing money in hospitality. We are taking a considered approach making sure where we invest in new or existing venues we have the best possible chance of success in terms of favourability and profitability – both are important. Favourability is critical to customer attraction and retention and each venue being profitable ensures our ability to give back now and in future.

Hospitality for The Trusts is a 'work in progress' with some way still to travel in our transformation strategy. Alongside the recently upgraded offers at The Hangar, Workshop Bar, Bricklane and iTi, an upgrade of Miss Qs at Westgate is imminent. Undoubtedly the major achievement over the last 12 months has been the opening of the fantastic, modern Good Home Lincoln Road which saw a fresh approach and a leading suburban gastro-pub brand brought to West Auckland hospitality by The Trusts. The community response has been overwhelmingly positive. These, together with our other venues, highlight we are about providing a range of modern hospitality venues, not a one size fits all 'cookie cutter' approach. When we open the new bespoke venue in Te Atatu Peninsula later this year we'll reinforce we are now a serious player in the modern hospitality market.

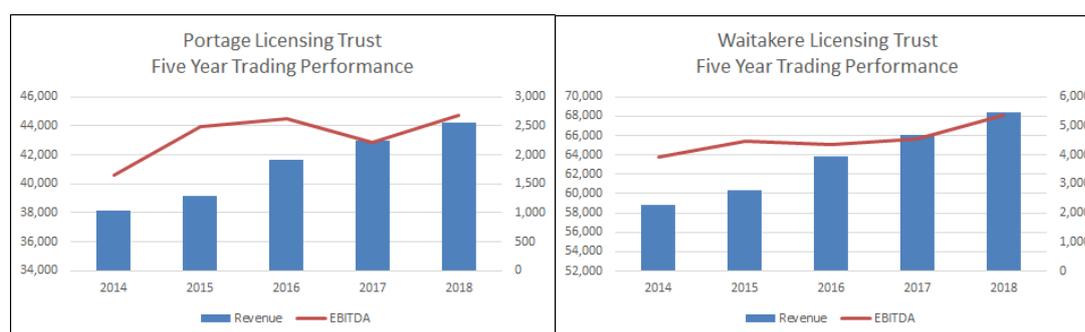
Financial Highlights

Specifically, with reference to our financial performance of The Trusts trading businesses (West Liquor, Village Wine and Spirits Stores and our hospitality venues) and our Investments, we note the following key highlights in addition to the Audited Financial Statements of Portage Licensing Trust and Waitakere Licensing Trust available online at www.thetrusts.co.nz :

- Retail earnings continue to be strong with modest growth year on year since the major rebranding completed over 2012 - 2014
- The impact of the successful implementation of the Hospitality Strategy is now being reflected in financial results
- Investment into diversified assets is returning solid earnings in its first year.

Earnings \$000	Retail	Hospitality	Investment	Total Trading EBITDA	Net Profit After Tax
PLT	3,827	213	853	4,893	1,059
WLT	5,641	596	2,323	8,560	3,479
Group	9,468	809	3,176	13,453	4,538

Improved results in all profit centres are reflected in the five-year trading summary for The Trusts:



Improvements continued in all areas of the business:

- Topline retail sales continue to grow modestly year on year, reflecting growth in certain parts of The Trusts area, and otherwise performing solidly in a generally tough market facing headwinds from a growing health and wellbeing trend and long-term beer declines. Increases reflect both the increasing customer count from a growing demographic, increase in market share of an attractive network of liquor retail stores, and the enhancement of sales per transaction through the upskilling of sales staff. New stores opened in recent years (WL Westgate Centre & WL Hobsonville) are operating at expected levels.
- Retail gross profit has been maintained through improvements in average sale and product margins and a focused effort to address market price perception through better product pricing of core products.
- Good progress in the implementation of the hospitality strategy has seen profit improvements in venues with completed refurbishments, operating improvements driving tighter cost

control, and the exit of underperforming, outdated venues (PLT: The Glen, WLT: Western Lights Tavern, Origins, The Flagship).

- Despite the market demonstrating the volatility inherent in equity markets, the full year returns from managed funds was a healthy 14.3%; well above the target average of 6.5% and current bank returns of 1.65%. Further deposits have been made into managed funds to support our long-term investments and ability to give back more in future.

The key focus for the retail business is growth where there is an expanding population and/or changing demographic. We continue to enhance the skills and product knowledge of our sales team to bring a better customer experience.

Completing the implementation of the hospitality strategy through continued improvement in operating efficiencies, upskilling of Managers and staff, and the review of each venue's brand and offer, will realise the full potential of the venues that The Trusts plan to retain in their portfolio. Growth of the portfolio is expected starting with the new gastro bar currently under development at Te Atatu Peninsula. Investment into further sites will be made, with the sound consideration of expected returns based on an analysis of existing and future demographics and competition.

Implementation of recommendations from a recent investment property review has achieved the completed settlement of one property and the unconditional sale of two further investment properties. Other properties are undergoing enhancement to fully realise their potential.

The investment portfolio of each Trust will continue to grow in line with our Investment Strategy.

In pure investment terms (as distinct from our favourability and customer facing businesses) the agreement of our two Trusts to seek diversified profit and growth via the Investment Strategy has proved to be the right new direction. An additional \$13M of capital is now invested into diversified managed funds as part of our Investment Strategy. This is in addition to our property investments across both Trusts which are regularly assessed by our commercial Board and management to determine when the right opportunities exist to realise capital and reinvest elsewhere for the best long-term interests of both Trusts and ultimately our community for Giving Back in future.

Looking Forward

Diversification is a key part of The Trusts Future Benefaction Strategy. A quick look back through the finances of both Trusts through the last Global Financial Crisis show that, like most other liquor retailers and hospitality businesses, sales and profits get compromised through tough times and that means Giving Back gets tougher too. To ensure we can continue Giving Back in such times we have been, since the last GFC, building a better backstop by way of our Investment Strategy so we're able to keep Giving Back More Forever, the aim of our Future Benefaction Strategy. This is about building a nest egg for West Auckland of future savings on which we can generate Giving Back More. Like people sensible with their own money do, we set aside some for Giving Back Now (discretionary spending), some for our current business needs (paying the bills) and some for the future (savings). Our Future Benefaction Strategy aims to build an investment base that adds to the retail and

hospitality businesses so we're able to reliably give back more in future. Our aim to get over \$200M invested by 2030 means West Auckland will be receiving, on a sustainable basis, at least \$5M every year in future. Critical to that is :

1. Current retail profits and our ongoing commitment to best in class retailing to win over more customers;
2. Current hospitality profit growth and development through attracting new and retaining existing customers;
3. Ongoing long-term investment of profits into long-term sound and diversified investments for future returns to the community.

Without any one of the above three, The Trusts will fall short of the potential we have to "play a significant part in making West Auckland a great place to live". Significant change to any one of the above sources of revenue would ultimately impact on our Giving Back and in turn the clubs, community facilities, charities and causes would struggle to replace that extra support they get from The Trusts to do their great work in our community providing essential services, better outcomes and new opportunities for those in need.

Finally, as part of our unique model, our Elected Members that you put in place each three years, take considerable pride in the care that we take with the gaming recommendations that they make to The Trusts Community Foundation Ltd (TTCF). Whilst TTCF is not under our control it does, with our agreement, operate gaming machines in some of our venues. This delivers a further circa \$7M to fund and support community causes in West Auckland. Nevertheless, we recognise the changing landscape vis-a-vis gaming and the very fact that we do not control it. We're mindful that the tap of very considerable community funding could change too.

This continues to focus our minds on the need to foster more give back from those areas that we do manage, to secure the long-term security of community benefaction via our Giving Back. This means we will continue to wisely invest further profits to build an investment base on which the community will reap long-term benefit; this has to be a key future priority for The Trusts. In this regard, we aim to build our giving back from commercial profits to \$2M this year and \$5M annually in future as quickly as we can.

Lastly our thanks go to the Elected Members of The Trusts for their unwavering support over the last year; the positive impact they make on your behalf is vital to our delivering a balance between profits and the negative consequences of alcohol sales by those who put profit ahead of social responsibility and Giving Back.

Our WATS Ltd Board and management form the commercial arm of The Trusts and it's fair to say The Trusts is a joint venture of sorts where the sum is greater than the individual parts. Together, with an excellent team serving West Auckland, we remain a force for good in West Auckland and the envy of other regions not as fortunate to have a sound working model of the balance between liquor profits, social responsibility, alcohol harm, giving back and community good.

On behalf of Waitakere Licensing Trust



Linda Cooper – President

On behalf of Portage Licensing Trust



Ross Clow – President

On Behalf of West Auckland Trust Services Ltd (the management company of PLT & WLT)



Brian Corban - Chairman, CNZM, QSO



Simon Wickham – Chief Executive