NZX, ASX and Media Release 24 May 2018

Metroglass announces its results for the 2018 financial year and the conclusions of its strategic review

Summary of results for the 12 months ended 31 March 2018 (FY18)[1]

$m	New Zealand		Australia		Group	
	FY18	FY17	FY18	FY17 *(7 mths)*	FY18	FY17
Revenue	212.9	213.8	55.4	30.5	**268.3**	**244.3**
Segmental EBIT[2]	29.2	31.9	3.2	3.2		
EBIT before significant items[3]					**30.9**	**33.9**
EBIT					**28.0**	**32.9**
Profit for the period before significant items[3]					**18.4**	**21.3**
Profit for the period (or NPAT)					**16.3**	**19.4**

- Group revenue of $268.3 million (+10%) including a full 12 months of trading from AGG. EBIT of $28.0 million (-15%) and NPAT of $16.3 million (-16%) impacted by significant items
- Strong operating cash flow of $33.6 million (+92%) and net debt flat at $94.3m
- Soft NZ construction activity resulted in flat NZ sales; RetroFit revenue grew +25%
- Australian revenue growth supported by Victorian double glazing sales, however capital programme disruptions impacted financial results in the final quarter of FY18
- Completed a $20.6m capital programme involving all plants, plus greenfield Tasmanian plant
- Declared a fully-imputed final dividend of 3.8 cps, bringing total FY18 dividends to 7.4 cps
- Conducted a strategic review of the business; changes at board and senior management level

Metro Performance Glass *(NZX.MPG, ASX.MPP, Metroglass)* today reports Reported net profit after tax for the 12 months to 31 March 2018 of $16.3 million, within the guidance provided in early April 2018, and the results of its strategic review announced in October 2017.

Group revenue for year to 31 March 2018, including a full 12 months of trading from Australian Glass Group (AGG), rose 10% to $268.3 million. NZ revenue was in line with FY2017, or up marginally on a daily sales basis.

Chair Peter Griffiths said: “The Group had a busy transitional year as it adapted to the softer growth in NZ, implemented an extensive capital investment programme and conducted a strategic review of the business. Pleasingly, Metroglass has maintained its leadership position with its NZ glass category share above 55%.

“EBIT before significant items fell 9% to $30.9 million this year which was a disappointing result. However the cost issues New Zealand faced in the first half have been addressed, and the capital programme that caused meaningful disruptions in Australia in the final quarter of the financial year is now complete.”

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[1] All prior period comparisons are to the full year ended 31 March 2017 (FY17) unless otherwise stated.

[2] All non-Generally Accepted Accounting Principles (GAAP) financial measures are defined and reconciled to a GAAP measure in the 2018 Annual Report also released today, available here: http://www.metroglass.co.nz/investor-centre/annual-interim-reports

[3] EBIT before significant items excludes $2.9m for CEO departure and recruitment costs in FY18, and $1.0m of one-off, non-deductible expenses related to the acquisition of AGG in FY17. NPAT before significant items in FY17 also excluded tax adjustments relating to IPO expenses and the finalisation of prior year tax positions.

The capital investment programme (totalling $20.6 million) is aimed at delivering improved capability and efficiency at each of the Group's processing plants, as well as better geographic alignment of equipment to market opportunities across the Group.

The NZ programme went largely to plan, however the Australian programme proved challenging with significant shipping disruptions extending the planned shutdown period. As a consequence, AGG's sales, costs and customer experience were impacted in the second half of the financial year.

Chief Financial Officer John Fraser-Mackenzie said: "The Group had strong operating cash flow of $33.6 million (+92%), supported by improved working capital management and lower tax payments in the year. We also were pleased to maintain net debt in line with last year after funding capital expenditure of $20.6 million and dividends of $14.1 million. We have considerable headroom in our financing facilities, however looking forward debt reduction is a priority for the Group given our position in the cycle."

Metroglass' board has declared a final dividend of 3.8 cents per share, taking the total dividends for the year to 7.4 cents per share. This is consistent with the Company's dividend policy range but marginally below last year's payment given the weaker financial result and the Company's focus on debt reduction. The dividend will be fully imputed for New Zealand shareholders. The record date for dividend entitlements will be 9 July 2018 and the payment date will be 24 July 2018.

New Zealand results

New Zealand revenue was flat at $212.9 million, with Canterbury activity driving a 2% decline in residential revenue. New Zealand EBIT fell by $2.6 million (-8%), with the vast majority of this decline occurring in the first half of the year. Underlying profit improvement was offset by pricing pressures in the slowing Canterbury region and excess factory labour carried in the first half. Financial performance stabilised in the second half, with steady sales across the country and no further significant cost or pricing deterioration.

The business also incurred non-recurring costs of $2.0 million relating to spikes in NZ electricity pricing (these risks have now been hedged) and one-off consultancy costs associated with the strategic review and manufacturing improvement projects.

RetroFit revenue for the year of $21.5 million (+25%) was generated by very strong growth in the second half, supported by a new advertising campaign[4] focusing on the benefits of double glazing in summer and continued systems and capability development.

Commercial glazing revenue of $48.2 million fell 5%, however profitability improved as the business focused on projects within core capabilities. The forward book of commercial glazing work remained steady at $28.3 million.

Manufacturing performance in the Upper North Island was below expectations this year, however plant performance and customer service across the Group has rebounded quickly following the capital programme's completion, and has trended positively in FY2019 to date.

Australian results

AGG made significant changes in its business during the year, with capital investment resulting in the doubling of its double glazing capacity, moving to an international float glass import model and opening its third processing plant in Hobart, Tasmania. The Tasmanian plant will enable better localised service and frees up capacity in the Victorian plant which serviced this market historically.

AGG had full year revenue of $55.4 million supported by growing Victorian double glazing sales, compared to $30.5 million for the seven months Metroglass owned AGG in FY2017. Profitability was below expectation due to the longer than anticipated disruption from the capital programme and ongoing poor machine reliability in the Sydney plant (now addressed by the capital programme).

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[4] Recent advertising has focused on the benefits from double glazing and LowE glass in summer (keeping the house cooler). View the advert by clicking the "Latest on TV" tile at http://www.retrodg.co.nz/.

Market conditions

NZ residential and non-residential activity remained at historically strong levels this year, however demand appears to have plateaued at this level. While strong economic and demographic fundamentals continue to support strong activity, supply-side constraints such as industry capacity, labour and material costs, and credit availability limited further growth.

AGG is focused primarily on the detached dwelling segment of new residential construction in South East Australia. Supported by strong underlying demand, activity levels are continuing to hold at historically very strong levels, in Victoria in particular; and we continue to see evidence of increased penetration of double glazing in our key markets.

Recruitment of a new Chief Executive

Former Metro Glass' CEO Nigel Rigby left the business in March 2018.

Metro Glass Chairman Peter Griffiths said, "The recruitment process for the new CEO is progressing. While the process is taking time, the board believes that finding the right leader to take Metroglass forward is critical for its people and its shareholders. CFO John Fraser-Mackenzie and the senior leadership team are operating the company well in the interim, and we thank them and all Group staff for their efforts this year."

Strategic review outcomes

Metroglass is today updating investors and analysts on its strategic priorities, and plans to achieve these priorities. A copy of the presentation is available on the NZX, ASX and Metroglass websites.

Mr Griffiths said, "After very strong sales growth over a number of years, we expect that over the next 24 months activity in our core NZ market will remain flat before softening over the medium term.

"Taking the cycle position into account, we conducted extensive reviews across the business, including assessments of each channel and geography, deep dives on our production approach, and considered feedback from customers and shareholders.

"This affirmed our confidence that Metroglass' strategy and purpose remain valid. Metroglass will continue to be a customer dedicated organisation that delivers market differentiated glass products and glazing services. However, the focus has shifted from expansion and diversification, to optimisation and enhancement of our internal capability to execute.

"The Group has an unrivalled customer proposition, is generating strong cash flows, and following a considerable capital investment phase, has numerous opportunities for optimisation ahead."

The Group's strategy is based on four key priorities, each with a set of initiatives for delivery in the next 12-24 months:

1) Deliver market leading service to our customers

Service is a key differentiator for our customers and critical to their success and profitability. The NZ and Australian businesses are now well set up to satisfy anticipated market demands over the next 24 months, and will focus on processing and installation efficiency, productivity and reliability.

2) Develop our organisational capabilities

Improving our ability to execute against our strategic initiatives is critical, and following a number of years of rapid growth, a greater focus will be placed on investing in our people, their capabilities and support systems.

3) Maintain scale position via product and channel leadership

Metroglass has grown to service more than 55% of the NZ flat glass market. Scale is an important advantage in the NZ market, providing significant manufacturing, procurement and distribution advantages.

Glass is a rapidly evolving product, and we have invested to keep pace with the rate of change. We will continue to drive product leadership with 'NZ first' products via continual market research and innovation.

We will continue to maintain our multiple channels to the different key market segments, which offer varied cycle exposure and growth opportunities. We will continue to participate in the value chain through to the customer in the RetroFit channel for the present.

AGG will use its significant new double glazing capacity and improved supply chain to deliver profitable growth in South East Australian market.

4) Leverage our scale and assets to deliver lowest total delivered cost

A persistent focus on increasing efficiency and automation and lowering costs is essential to for the long term sustainability of the business, and to enable us to compete successfully against imports and changing industry dynamics.

FY2019 financial targets

Chair Peter Griffiths said: "Future market conditions are always difficult to predict, but we expect activity in New Zealand to remain close to the current levels for the coming 12 months, with further Canterbury declines being offset by growth in other regions.

"In Australia, activity in AGG's target markets has held up well. We consider overall market activity may soften however AGG will still have significant growth opportunities ahead of it as it builds sales capability and utilises its increased production capacity.

As we implement our initiatives across the Metroglass Group in the 2019 financial year, we are targeting Group EBIT of between $30 - $33 million capital expenditure of approximately $10 million and repayment of between $7 – $10 million of debt. We also intend to maintain our current dividend policy.

/Ends

FULL YEAR RESULTS AND STRATEGY UPDATE BRIEFING:

Metro Glass will host a briefing scheduled to begin at 10:00am NZDT, 8:00am AEDT today, which can be joined by webcast or conference call.

To listen to the webcast, access the company's website at http://www.metroglass.co.nz/investor-centre/. An online archive of the event will be available after 2pm.

To join the conference call, participants will need to dial in to one of the numbers below. When prompted by the operator, please quote the conference code: 5200407.

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