

Sustained operational improvements in New Zealand offset by challenges in Australia

Summary of the unaudited results for the six months ended 30 September 2018 (1H19)¹

\$m	New Zealand		Australia		Group	
	1H19	1H18	1H19	1H18	1H19	1H18
Revenue	113.0	112.1	27.5	29.6	140.5	141.7
Segmental EBIT ²	17.0	16.9	(1.3)	2.6		
EBIT					15.5	18.8
Profit for the period					9.1	11.8

- Group revenue of \$140.5m (-1%), EBIT of \$15.5m (-18%) and NPAT of \$9.1m (-22%), impacted by poor trading results in Australia
- NZ revenue and EBIT in line with 1H18, with growing North Island activity offset by further South Island declines. Sustained improvements in service levels were delivered
- Australian EBIT was impacted by operational challenges and the Tasmanian plant start-up. A new senior leadership team is in place and focused on stabilising performance in the second half of the year
- Net debt increased by \$1.3 million to \$95.2 million (2.3x EBITDA). Announced the intention to prioritise debt repayments and declare no further dividends until net debt to EBITDA reduces to ~1.5x
- Revised Group FY19 EBIT guidance of circa. \$28 million
- Simon Mander joined on 19 November as Metroglass' new CEO

Metro Performance Glass (NZX.MPG, ASX.MPP, Metroglass) today reports good progress driving operational improvements across the New Zealand business, diluted by challenges linked to the restructure of its Australian business, AGG.

Metroglass Chairman Peter Griffiths said: "During the first six months of the 2019 financial year the company has been focused on its refreshed strategy to improve execution, deliver financial performance from the investments we have made in additional production capacity and leverage our strong market position.

"We have made progress across all parts of the business, but the 1H19 financial results illustrate that the delivery of our strategy has differed across New Zealand and Australia.

"Our top priority in the half year has been the New Zealand operations, where pleasingly we have achieved sustained improvements in customer experience and operating performance. We also believe we are making progress in developing our business culture. By way of an example, New Zealand's 'delivery-in-full-on-time' performance for our customers in the first half was the highest it has been for over 2 years.

"The Australian business, AGG, remains challenging. The market is supportive and the recent capital investment programme is showing promise on lifting production capacity and improving manufacturing efficiency. However,

¹ All prior period comparisons are to the half year ended 30 September 2017 (1H18) unless otherwise stated.

² All non-Generally Accepted Accounting Principles (GAAP) financial measures are defined and reconciled to a GAAP measure in the investor presentation also released today, available here: <https://www.metroglass.co.nz/investor-centre/investor-presentations/>.

it is taking longer than originally planned to reset AGG's operations, people and culture. This has impacted its year to date financial performance and highlighted further capability gaps we are working to address.

"In spite of the current challenges, we believe in the longer-term opportunities that this business offers. The market, while very competitive, is significantly larger than New Zealand and we're seeing continued regulatory moves supporting the uptake of double glazing, which is at the core of our product offer.

"The recent capital programme upgrades are now completed, and we have recently made a number of changes to the leadership team. We are confident the performance improvement initiatives that have delivered such strong results in New Zealand can be successfully exported across the Tasman. We also expect that AGG will benefit from increasing penetration of double glazing alongside supportive regulatory changes in our target markets. We are focused on stabilising AGG's performance in the second half of the year and returning the business to profitable growth in FY20."

Mr Griffiths said Simon Mander, the new Group CEO appointed in August, joined the company earlier this month and is well underway in preparing for the challenge. Simon is an experienced and inclusive people leader, who brings a strong track record in the New Zealand manufacturing and building material sectors. We're excited to have him on board," he said.

Changes in Metroglass' competitive landscape

"The broader industry in which we operate is continuing to evolve, presenting us with both opportunities and risks. Market penetration of advanced glass products continues to increase, our largest glass processing competitor is currently undergoing a sale process and additional glass processing capacity is being added in New Zealand and Australia alongside continuing strong levels of construction activity.

"On the 19th of November, we announced that we had become aware that a large aluminium extruding business is planning to enter the New Zealand glass processing market. We understand that they intend to build a plant near Hamilton which will gradually come on stream from mid-2020.

"Metroglass has a 30 year history of adapting to and benefiting from significant changes to our products, customer demands, manufacturing technology, building regulations and volatile building cycles.

"To meet these future challenges and deliver for our shareholders, we must continue to have a clear focus on what matters to our customers. And we must leverage our scale and our ability to efficiently and quickly manufacture and deliver high-specification glass products and services to ensure we meet those demands."

Capital management and dividends

"The board has reviewed the group's leverage and dividend policy against its current operating performance, its long-term strategy, the uncertain future competitive landscape, and expectations of how the Australasian building cycles could evolve in the coming years.

"Following this review, and after considering a range of options, the board believes it is in the best interests of the group to prioritise debt reduction, and to declare no further dividends until the group's leverage ratio (as measured by net debt to rolling 12-month EBITDA) is reduced to approximately 1.5 times. At 30 September 2018, this ratio was 2.3 times."

Metroglass refinanced its syndicated debt facilities in September 2018 for a further three years, with no changes to the covenant structure and headroom of more than \$30 million as at 30 September 2018.

Outlook for FY19

Mr Griffiths said "elevated levels of residential and non-residential construction in New Zealand, and residential activity in South East Australia provide a generally supportive market environment, with the one exception being the continuing slowdown in Canterbury. As has been broadly the case for some time now, strong economic fundamentals continue to support strong activity, but supply-side constraints are limiting growth.

“We note the softening of leading indicators of Australian residential construction activity, and multi-residential approvals in particular. AGG is primarily involved with new detached houses and alterations and additions, in the South East of Australia. These segments have been less impacted to date, however are also expected to soften in the coming 12-24 months.

“Future market conditions are always difficult to predict, and industry commentators are currently predicting a broad range of potential market trajectories. Leading indicators point to steady levels of activity in the near term, and we are not expecting any major changes to market demand over the remainder of the year.

“The financial performance of New Zealand is on target and ahead of the same period last year. However, as indicated at the Annual Shareholders meeting, Australia has not performed to expectations. Consequently, we now expect FY19 Group EBIT of circa. \$28 million.

“We expect capital expenditure for the year to be approximately \$8 million and debt reduction of approximately \$7m. This debt repayment level doesn’t reflect the full impact of the temporary dividend suspension noted above due to the lag in dividend payments.”

MANAGEMENT REVIEW

New Zealand

New Zealand operations delivered improved customer service results and achieved sustained operational and organisational improvements. We have launched a number of people-focused initiatives in recent months and have pleasingly seen a meaningful decline in voluntary staff turnover. Our New Zealand glass category market share for the six month period was 55%, impacted modestly in the period by our inventory reduction programme.

These results were supported by additional investments in our people, including the on boarding of new management talent and capability, increasing the leadership and supervision within our plants, and aligning wage rates with the market.

Total revenue in New Zealand grew by \$0.9 million or 1%. North Island sales grew by 7%, while the South Island fell by 9% as a result of significantly lower activity in the Canterbury region, especially in commercial glazing.

Residential sales grew by 2% on a national basis, driven predominantly by an increase in sales to residential window fabricators in the North Island.

Commercial Glazing revenue fell 4% in 1H19 to \$24.2 million, with double digit growth in the North Island more than offset by an almost halving of South Island commercial glazing revenue following the completion of a number of significant projects in the region. The business is also continuing to focus on selecting projects that are within its core competencies and that it can deliver on-time and profitably.

Revenue from the RetroFit double-glazing channel grew 5% to \$12.2 million in 1H19, impacted by softer than anticipated leads in the period.

New Zealand delivered EBIT of \$17.0 million, consistent with the prior period. Within this result, underlying profit improvement was impacted by a significant decline in Canterbury commercial glazing activity, increased costs relating to distribution and logistics costs, notably including the rise in fuel costs, labour costs and depreciation following the FY18 capital programme.

In New Zealand the contribution margin (before overheads) increased by 6% and EBITDA increased by 4% versus 1H18. Overheads increased by \$1.3 million on account of increased professional services relating to technical compliance, higher recruitment costs and staff costs relating to prior periods.

As noted earlier, Canterbury Commercial Glazing revenue almost halved in 1H19, resulting in a \$1.5 million EBIT impact in the period. In line with the more muted outlook for the business and the new focus of the broader commercial operation, it is being restructured to deliver improved levels of profitability.

Australia

The Victoria and New South Wales operations had a challenging six months. Both plants struggled to achieve efficiency targets and had equipment commissioning issues post the capital programme's completion and a refocus of the business on double glazing. There was also increased competitor activity, particularly in Victoria.

These changes have highlighted several organisational gaps. To address these issues the business has recently appointed an acting Chief Executive and new General Managers for each of the mainland states. The new leadership team brings considerable manufacturing experience and focus to the business as it works to stabilise performance in the second half of the year.

The New South Wales business is transitioning from one that predominantly produces processed toughened glass to one focused on double glazed units, and this transition has impacted service levels and market share. Processing equipment transferred to New South Wales from Highbrook is now performing well and has positioned the business well to drive a more efficient production flow. We are confident organisational changes and cultural improvements will allow the business to grow its sales without adding proportional cost.

AGG opened its third Australian processing plant in Hobart, Tasmania in early 2018. This plant enables the company to offer better service to local customers and has freed up processing capacity in the Victorian plant which previously serviced the Tasmanian market. The operation did not start up as smoothly as we would have liked, and initially this weighed on service levels and ultimately on AGG's market share on the island. However, the plant is now performing well and is also delivering annualised sales well ahead of what AGG has historically achieved in Tasmania.

The Victorian plant is yet to fully utilise the capacity made available with the commissioning of the Tasmanian plant. We are confident that, post the capital programme, it has the right equipment to meet the market, but it is also clear that with investment in line management and the culture of the organisation it has strong potential to deliver service level improvements leading to higher sales and improved financial results.

AGG today holds a relatively small position in the large and fragmented South East Australian glass processing market. Despite current operational issues, we continue to see opportunity and long term value in this investment benefiting from anticipated changes in the market for double glazing and the performance improvement initiatives currently underway. Metroglass has considerable experience in operating and improving the performance of similar operations in New Zealand, but embedding sustained improvements in these businesses does take time.

We have made a number of changes to the Australian leadership team, and they are firmly focused on stabilising performance in the second half of the year.

Australian Glass Group (AGG) revenue declined by \$2.1 million or 7% to \$27.5 million in 1H19. Most of this decline occurred in New South Wales where revenue fell by \$1.5 million.

AGG's EBIT fell from a profit of \$2.6 million in 1H18 to an EBIT loss of \$1.3 million in 1H19. This result was due to the slow start-up of a new processing facility in Tasmania, and production difficulties in the Victoria and New South Wales operations. It also faced higher electricity costs of \$0.4 million and additional depreciation of \$0.5 million.

The transfer of Tasmanian customers from the Victorian plant to the new Tasmanian plant impacted on service delivery for our customers, which combined with the diseconomies of scale associated with a greenfield start-up, had a combined negative impact of \$1.7 million on 1H19 EBIT results.

The Victoria and New South Wales plants each had extended periods of variable production performance following the introduction of new machinery and significant changes made to the site layouts in early 2018. The situation was compounded by higher than typical levels of staff turnover.

The Victorian plant is not yet utilising the capacity made available with the start-up of the Tasmanian operation and this has weighed on operating margins. Tasmania is now operating well and remains on track to operate at an EBIT break-even run rate by the end of FY19.

Balance sheet and cash flows

Total working capital improved on the prior year. The significant move was in inventory decreasing by \$1.2 million with a focused inventory management program in New Zealand partially offset by the build-up of inventory in Australia for the new Tasmanian plant.

Net debt increased by \$1.3 million in the half to \$95.2 million. Operating cash flows reduced primarily due to the poor Australian trading result, which included increased working capital, as well as increased Group interest and tax payments.

Group gearing (net interest-bearing debt / (net interest-bearing debt + equity)) increased slightly from 36.7% at 30 September 2017 to 36.9% at 30 September 2018. Debt reduction is a key focus in the second half of the year.

Capital expenditure of \$2.3 million in the first half of the financial year represents a 76% reduction on the \$9.7 million invested in 1H18, however increased spending is anticipated in the second half of the year.

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HALF YEAR RESULTS WEBCAST AND CONFERENCE CALL:

Metro Performance Glass Limited will host a conference call today to review its results for the 6 months ended 30 September 2018. The conference call is scheduled to begin at 10am NZDT, and can be joined by webcast or conference call.

You can listen to the webcast via the company's website: www.metroglass.co.nz/investor-centre or directly: <https://edge.media-server.com/m6/go/Metro-Glass-2019-interim-results>. Please allow extra time prior to the webcast to visit the site and download streaming media software if required. An online archive of the event will be available after 2pm on the day.

To join the conference call, participants will need to dial in to one of the numbers below at least 5 minutes prior to the scheduled call time and identify yourself to the operator. When prompted, please quote the conference code: **7009993**.

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