# Metro Performance Glass

## FY19 Interim Results Presentation

## 26 November 2018


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# 1H19: Key events

1. Group revenue of $140.5m (-1%), EBIT of $15.5m (-18%) and NPAT of $9.1m (-22%), impacted by poor trading results in Australia
2. NZ revenue and EBIT inline with the same period last year, with growing North Island activity offset by further South Island declines. Sustained improvements in service levels were delivered
3. The Australian business delivered an EBIT loss of $1.3m vs. EBIT of $2.6m in 1H18 driven 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
4. Net debt increased by $1.3 million to $95.2 million (2.3x EBITDA)
5. Announced the intention to prioritise debt repayments and declare no further dividends until net debt to EBITDA reduces to ~1.5x
6. Simon Mander joined on 19 November as Metroglass' new CEO

*Mini showroom, Newmarket.*

# Executing on Metroglass' refreshed strategy

**Our top priority in the half year has been the New Zealand operations, where pleasingly we have achieved sustained incremental improvements in customer experience, operating performance and culture. The Australian business is challenging and taking longer to reset its operations, however decisive actions have been taken to stabilise the business in H2**

## 1. Delivering market leading service to our **customers**

- Strongest 6 month NZ customer service metrics for 2+ years
- Conducted a NZ-wide customer survey to align service improvement priorities
- AGG service levels below target

## 2. Developing our **organisational capabilities**

- Strengthened AGG leadership and NZ factory management
- Launched initiatives to better support, train and engage our people. Included a group-wide staff engagement survey
- Aligned wage rates with a competitive labour market
- Focusing on improved safety through preventative efforts
- Simon Mander, Group CEO joined this month

## 3. Maintaining our scale position via **product and channel leadership**

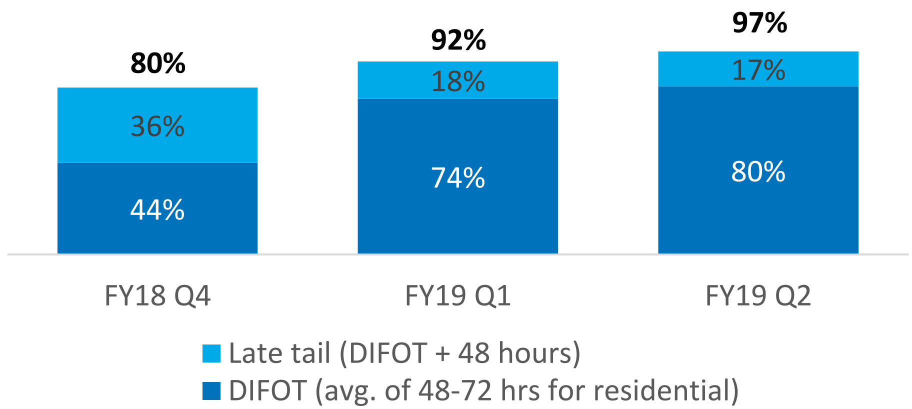
- 55% NZ market share, impacted by inventory reduction efforts
- Growth in NZ residential and Retrofit revenue offset by falling South Island demand
- Reshaped the Canterbury business inline with reduced activity levels
- Working to tailor the Australian business to better serve its markets and enable future profitable growth

## 4. Leveraging our scale and assets to achieve **lowest total delivered cost**

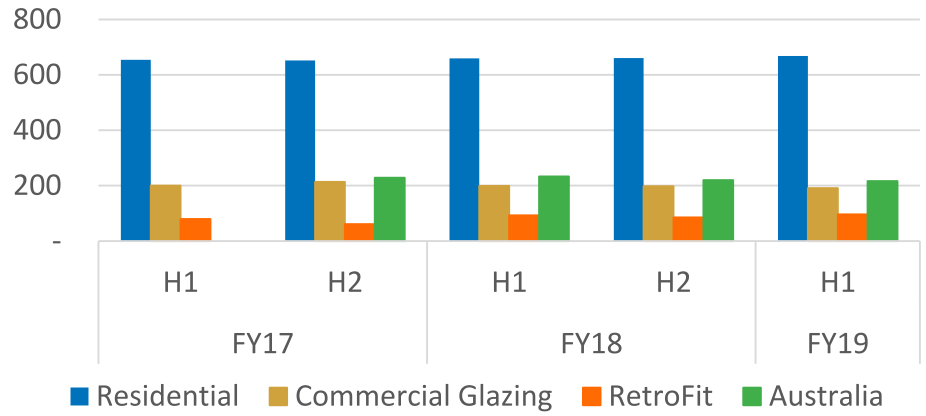
- Cost pressures in labour, distribution and material costs given the declining NZD
- Continuous improvement being embedded across the plant network
- Operational challenges impacted Australian labour efficiency in the half

# Early impacts from strategic initiatives

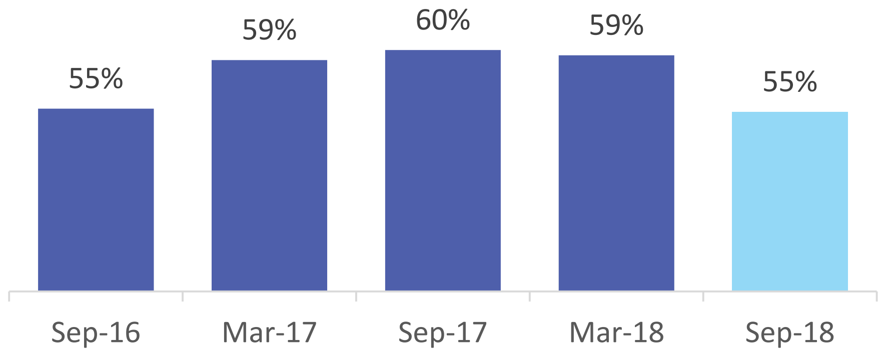
**Customer service metrics trending positively in NZ**
*Example plant metrics: Highbrook*



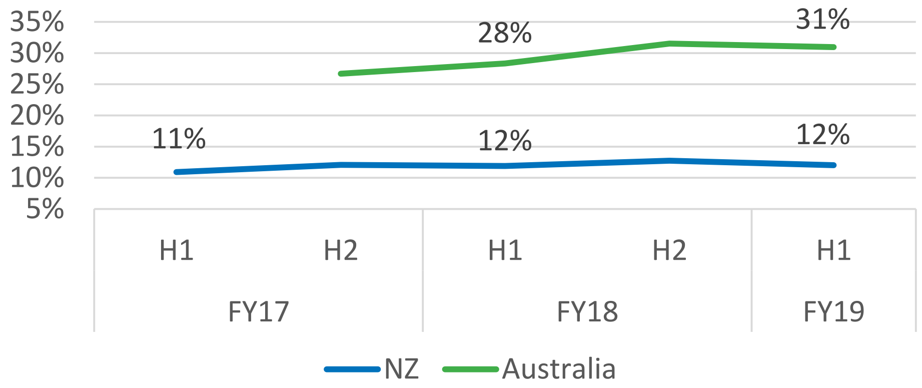

**Diversified channel presence maintained**
*Daily sales (NZ$000)*




**NZ glass category share[1] of 55% with inventory reduction having a c. -2% impact.** *Rolling 6 month share*




**Operational challenges impacting Australian labour efficiency**
Factory labour as a % revenue

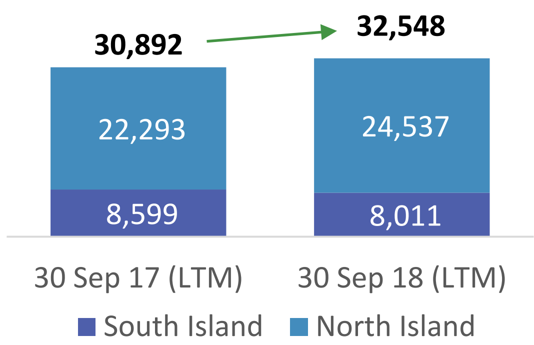



*Source: Company information, Statistics NZ*
*[1] Metro Glass' share of the total quantity of glass purchased and imported into New Zealand.*

# Building activity levels remain supportive, but slowdown continues in Canterbury

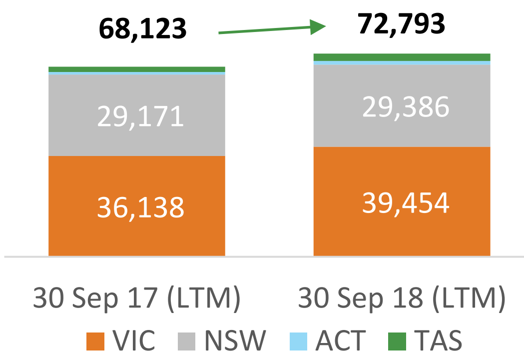
**Strong economic and demographic fundamentals continue to support strong activity (moderating but still high migration, low interest rates, underbuilt Auckland, KiwiBuild), but supply-side constraints (capacity, costs, credit availability) are impacting growth**

## New Zealand – # of residential consents[1]



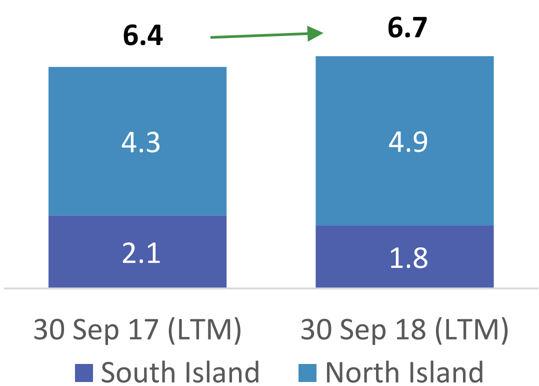

- Residential dwelling consents for 12 months to 30 Sept 18 rose +5%
- North Island +10%
- South Island -7% Canterbury -10%

## South East Australia – # of detached dwelling approvals[3]



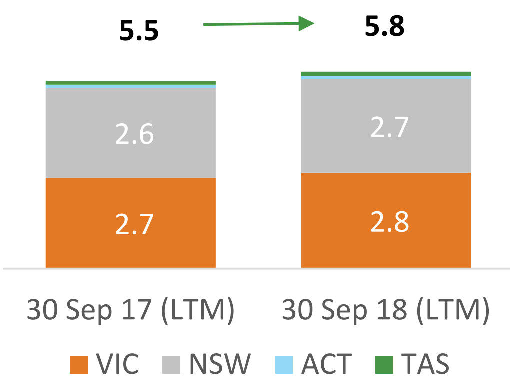

- Double glazing penetration is increasing
- Detached dwelling (house) approvals for the 12 months to 30 Sept 18 rose 7%
- Victoria +9%, NSW +1%

## New Zealand – value of non-residential consents ($bn)[2]




- The value of non-residential dwelling consents for the 12 months to 30 Sept 18 rose +5%
- North Island +14%
- South Island -14%

## South East Australia – value of A&A (A$bn)[3]




- The value of alterations and additions for the 12 months to 30 Sept 18 rose +5%
- Victoria +5%, NSW +4%

1. *Source: Statistics NZ, number of residential dwelling consents (12 months to 30 September 2018). No lag has been applied.*
2. *Source: Statistics NZ, value of non-residential consents (new plus altered; 12 months to 30 September 2018).*
3. *Source: Australian Bureau of Statistics, 8731.0 Building Approvals, Australia (12 months to 30 September 2018).*

# Changes in Metroglass' competitive landscape

- The broader industry in which we operate is continuing to evolve, presenting us with both opportunities and risks. Including:
  - Market penetration of advanced glass products continues to increase
  - Viridian, our largest glass processing competitor is currently undergoing a sale process
  - Additional glass processing capacity is being added in NZ and Australia alongside continuing strong levels of construction activity
- Architectural Profiles Limited (APL), a large aluminium extruding business has announced its intention to enter the NZ glass processing market, through a new plant near Hamilton which is expected to gradually come on stream from mid-2020
  - APL has existing relationships with a network of affiliated NZ window manufacturers via aluminium supply
  - Metroglass currently supplies glass to the majority of these window manufacturers, which are predominantly independently owned and run, and will continue to choose their glass suppliers based on quality, delivery accuracy, product range, technical support and distribution capabilities
- 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. Change has been constant throughout Metroglass' history, and the company stands today as the clear market leader
- **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**

# Window manufacturing – typical residential supply process

**Prime Die Holder**

Supplies aluminium to Window Manufacturer

**Window Manufacturer**

Manufactures aluminium frames

Orders supply-only double glazed units from MPG

Fits glass to window frames in factory, then delivers and glazes completed windows on-site

**And/or**

Orders site glazing from MPG, if required

Fits frames onsite without glass

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Manufactures and supplies glass within 48-72 hours

Inspects and site measures

Manufactures, Delivers and glazes windows onsite on agreed timeline

**Completed Dwelling**

# Operational update – New Zealand

- Focus has been on building organisational capability in order to develop our customers better service
  - Service levels in the half have been highest achieved in over 2 years
  - Filled all operational leadership roles and strengthened supervisor levels across sites
  - Reset  of wage rates to more accurately reflect the market
  - Voluntary staff turnover continues to decline – year to date to October absolute reduction of 5% vs prior comparative period
- Re-shaped the Canterbury business inline with reduced activity levels, will provide dedicated focus on production, glazing and the merchant/retail market
- Conducted extensive customer survey, re-prioritised internal initiatives to align with customer requirements
- Launched Project Accelerate to embed a best practice production culture across our operations
- Whilst our focus has been on rebuilding sustainable operating improvements, these initiatives have also begun to deliver improved financial performance:
  - 1H19 revenue up 1% to $113.0 million. Growth in residential and Retrofit revenue offset by softening South Island demand, in particular Canterbury commercial glazing
  - Increased Gross Profit % by 1.2% on the back of our ‘back to basics’ approach
  - Contribution margin (before overheads) up 6% and EBITDA up 4%
  - Operating cashflow after capex +17.0% vs. 1H18

*Forel edge-work processing, Highbrook.*

# Operational update – Australia

Australian Glass Group®

**Corporate**

- Steve Hamer appointed Acting CEO in August

**Victoria**

- Capital programme has delivered the right equipment to meet market demand
- Variable production performance in the period. Excess capacity following commissioning of Tasmania plant also led to diseconomies of scale
- New General Manager joined in August
- Organisation and culture changes in progress to drive sales and financial performance improvements.
- Additional capacity installed by competitors alongside the strong market activity

**Tasmania**

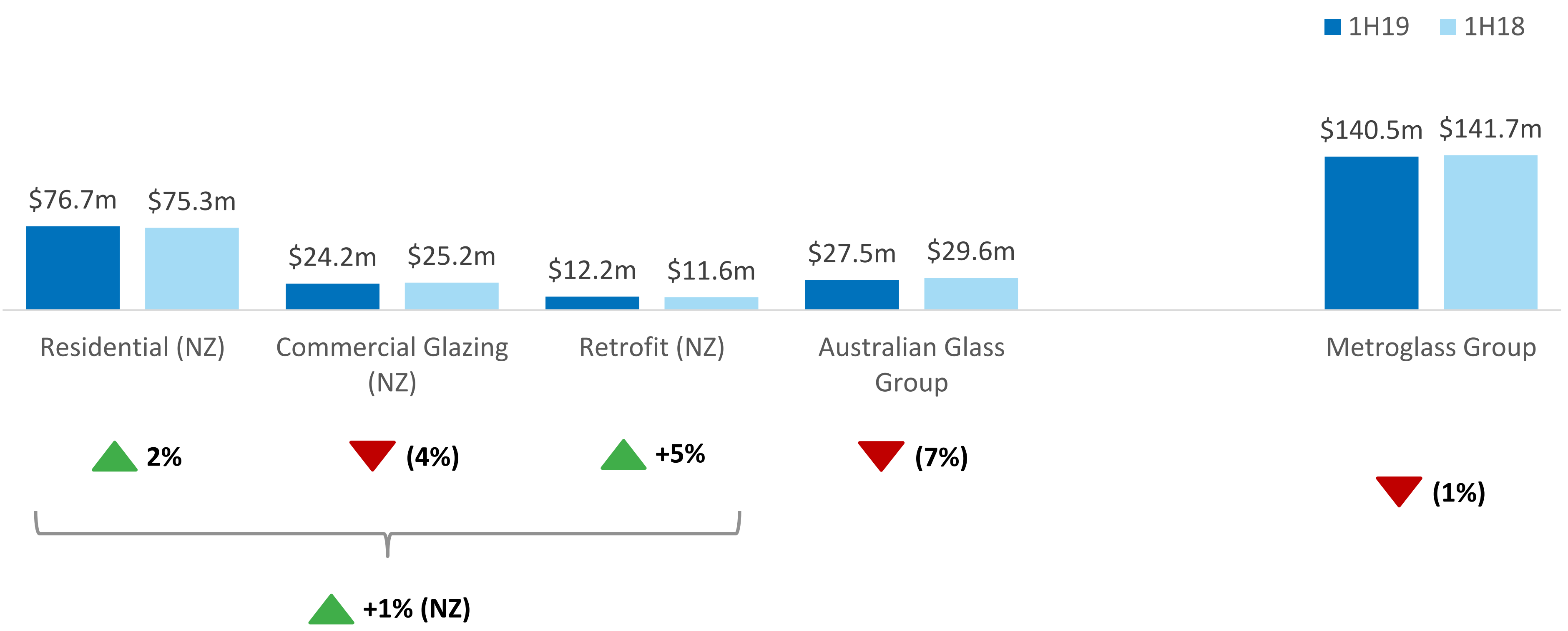
- Embedded processes and organisational capability in new facility with full glass processing capability, (including LowE glass)
- Transition of service from Victoria to the new plant saw service levels fall and a (temporary) loss of market share
- The plant is now performing well, with sales run rate ahead of AGG's historical sales to Tasmania from Victoria
- Offers quicker and better service to the market and releases capacity in Victoria

**New South Wales**

- Variable production performance in the period as the business transitions focus away from toughened glass towards double glazing
- Plant transferred from Highbrook is now performing well, increased capacity now on stream to support growth across market in South East
- New General Manager joined in July
- Reduction in headcount of c. 20% on the back of capital program bringing improved layout and equipment reliability
- Organisational and process changes now embedded and beginning to take effect

# 1H19: Group revenue

## Metroglass Group revenue (NZ$ million)[1]




*Notes:*

1. *The allocation of sales between residential and commercial applications is difficult as Metroglass doesn't always know the end use of a piece of glass. The categorisation methodology is consistent across periods, however Commercial Glazing revenue will include some level of residential glazing sales and services.*

# 1H19: First half results summary

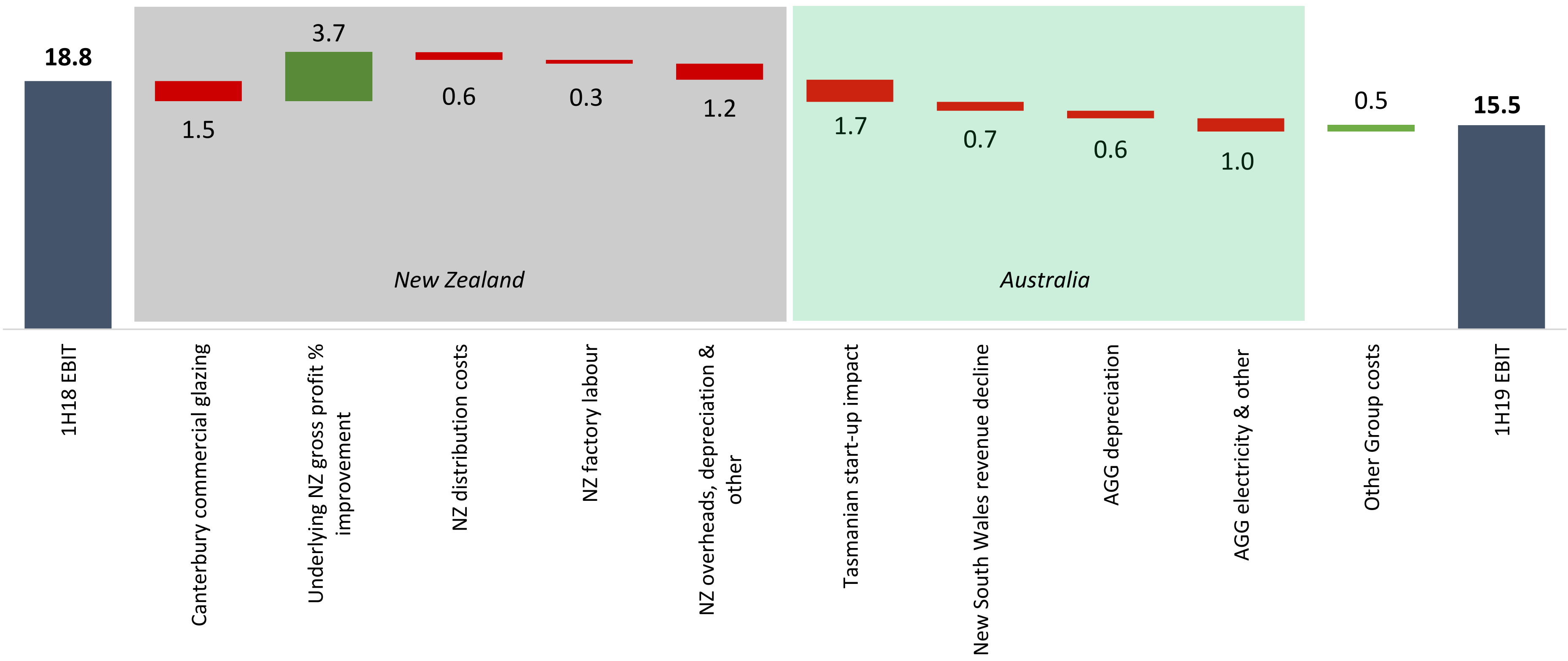
| Metroglass Group (NZ$m)[1] | 1H19 | 1H18 | % chg |
|---|---|---|---|
| **Revenue** | **140.5** | 141.7 | (1) |
| | | | |
| **EBITDA** | **22.7** | 24.7 | (8) |
| Depreciation & amortisation | 7.2 | 5.8 | 24 |
| **EBIT** | **15.5** | 18.8 | (18) |
| | | | |
| **NPAT** | **9.1** | 11.8 | (22) |
| **Basic EPS (cents)** | **4.9** | 6.4 | (23) |
| **Total dividend declared (cps)** | - | 3.60 | (100) |

| Segment results (NZ$m)[2] | 1H19 | 1H18 | % chg |
|---|---|---|---|
| **New Zealand** | | | |
| Revenue | 113.0 | 112.1 | 1 |
| Segmental EBITDA[1] | 22.3 | 21.4 | 4 |
| Segmental EBIT | 17.0 | 16.9 | 1 |
| | | | |
| **Australia** | | | |
| Revenue | 27.5 | 29.6 | (7) |
| Segmental EBITDA | 0.6 | 3.9 | (85) |
| Segmental EBIT | (1.3) | 2.6 | (152) |

1. *EBITDA and Segmental EBITDA/EBIT are non-GAAP measures of financial performance. Additional detail is provided on slide 17 of this release.*
2. *The full segment note is available in the FY19 Interim Report.*

# 1H19: EBIT summary

**EBIT bridge: 1H18 to 1H19 ($m)**



# 1H19: Summary cash flow & balance sheet

| Key cash flow items (NZ$m) | 1H19 | 1H18 |
|---|---|---|
| EBIT | 15.5 | 18.8 |
| Operating cash flows | 9.4 | 17.6 |
| Capital expenditure | 2.3 | 9.7 |
| Dividends paid | 7.0 | 7.4 |

| Key balance sheet items (NZ$m) | 1H19 | 1H18 |
|---|---|---|
| Net working capital[1] | 36.6 | 37.7 |
| Property plant & equipment | 65.8 | 62.0 |
| Total assets | 303.8 | 300.2 |
| Net debt | 95.2 | 93.9 |
| Total shareholders equity | 162.8 | 161.7 |

*Notes:*

1. *Net working capital: trade & other receivables + inventory – trade & other payables.*
2. *Gearing: net interest bearing debt / (net interest bearing debt + equity).*

- Net working capital improved with focussed inventory management in New Zealand partially offset by the build-up of inventory in Australia for the new Tasmanian plant
- Operating cash flows fell primarily due to a poor Australian trading result including increased working capital, as well as increased Group interest and tax payments.
- Capital expenditure was 76% lower than 1H18
- The Group refinanced its syndicated borrowing facilities for a further three year term in September 2018, retaining headroom of more than $30m. There were no changes in lender covenants
- Net debt increased by $1.3m year on year, with reduced capital expenditure and NZ borrowing repayments offset by increased borrowings in Australia. Group gearing[3] increased from 36.7% at 30 September 2017 to 36.9% at 30 September 2018

# 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

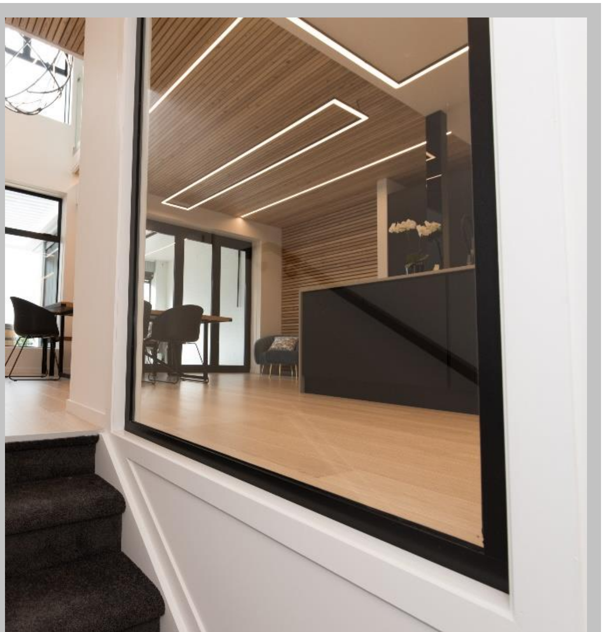
# Outlook for FY19

- 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, Australia has not kept pace with 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

*Hereford Street apartments, Auckland.*



# Q&A session

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# Appendix: Explanation of non-GAAP profit measures

**Non-GAAP financial information**

- Group results are reported under NZ IFRS. This presentation includes non-GAAP financial measures which are not prepared in accordance with NZ IFRS, being:
  - EBITDA: Earnings before interest, tax, depreciation and amortisation
  - Segmental EBIT: EBIT of an operating segment in the Group. Excludes Group costs including insurance, professional services, director fees and expenses, listing fees, share incentive scheme costs. Further details provided in the segment note of the 2019 Interim Report
  - NPATA: Profit for the Period before the amortisation of acquisition-related intangibles and its associated tax effect
- We believe that these non-GAAP financial measures provide useful information to readers to assist in the understanding of our financial performance, financial position or returns, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZIFRS
- Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies

| Six months to 30 September | 1H19 ($M) | 1H18 ($M) |
|---|---|---|
| **Profit for the period (GAAP)** | **9.1** | **11.8** |
| Add: taxation expense | 3.7 | 4.8 |
| Add: net finance expense | 2.7 | 2.3 |
| Earnings before interest and tax (EBIT) (GAAP) | **15.5** | **18.8** |
| Add: depreciation & amortisation | 7.2 | 5.8 |
| EBITDA | **22.7** | **24.7** |
| | | |
| **Profit for the period (GAAP)** | **9.1** | **11.8** |
| Add back: amortisation of acquisition-related intangibles and its associated tax effect | 0.9 | 0.9 |
| **NPATA** | **10.1** | **12.7** |

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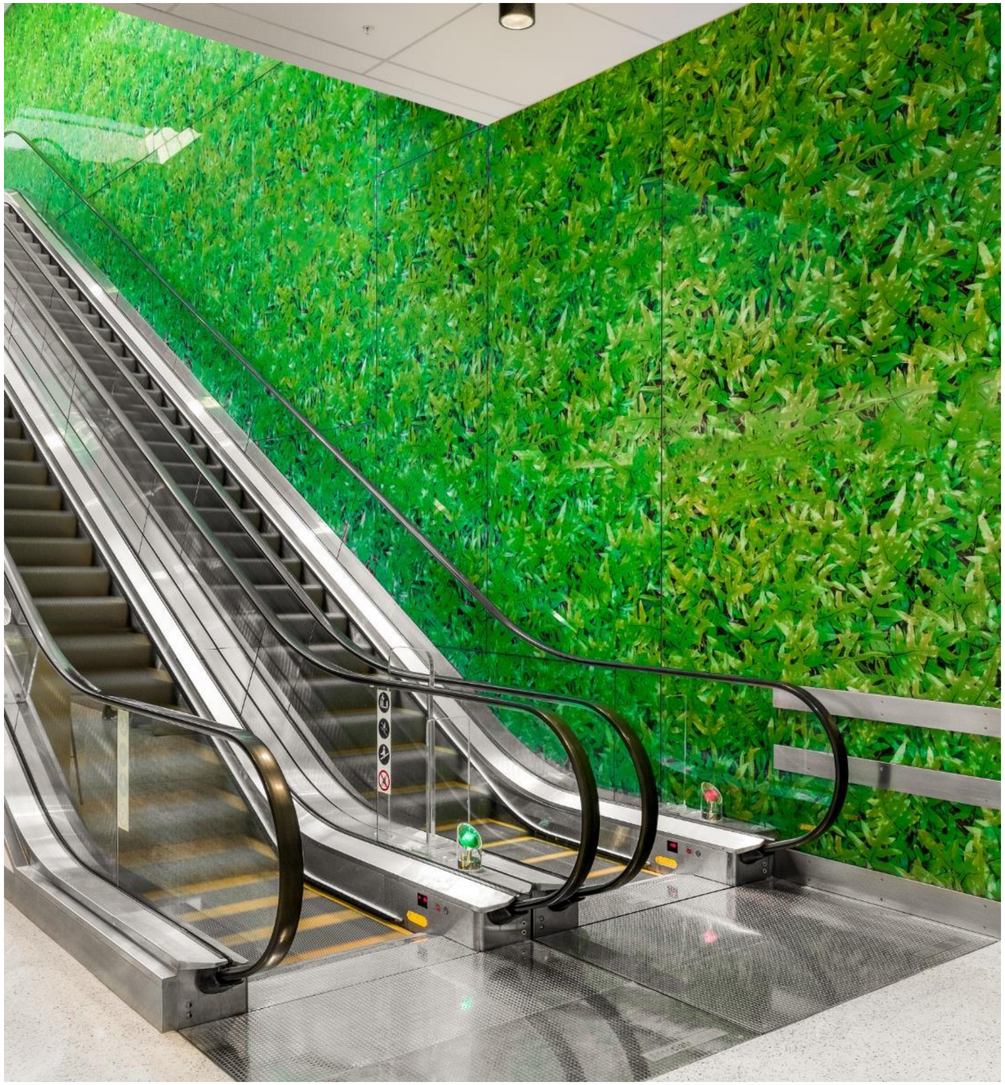

*The Hub, Christchurch.*