SHRIRO HOLDINGS LIMITED

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

OVERVIEW

- Total Sales Revenue declined 3.8% in a difficult market
- Strength of the Consumer Products business evidenced by Sales revenue growth of 1.8%
- Record watch sales in Australia;
- Difficult trading environment in Kitchen Appliances contributed to reported Group EBITDA reduction of 42.1%
- BBQ initiative 'everdure by heston blumenthal' continues to grow from international expansion
- Management of working capital ensured a continuation of low gearing (Net Debt $6.0 million)
- Final dividend declared of 3.0 cents per share, fully franked

RESULTS SUMMARY			
	CY18 Reported $m	**CY17 Reported $m**	**Change**
Revenue	181.1	188.3	(3.8%)
Gross Margin	39.4%	42.3%	
Operating Expenses	(57.1)	(55.0)	3.8%
EBITDA	**14.3**	**24.7**	**(42.1%)**
Depreciation	(3.7)	(3.8)	(2.6%)
Interest	(0.6)	(0.5)	20.0%
Profit Before Tax	10.0	20.4	(51.0%)
Profit After Tax	**7.7**	**14.5**	**(46.9%)**

GROUP PERFORMANCE

Shriro Holdings Limited ("Shriro") (ASX: SHM) today announced results for the calendar year ended 31 December 2018 with Net Profit after Tax for the year ended 31 December 2018 down 46.9% to $7.7 million. This result is in line with the guidance provided to the market on the 25th of October 2018. Whilst the Consumer Products division held up well in a difficult environment, the Kitchen appliances division suffered lower sales and tighter gross margins. Total sales Revenue was $181.1 million, a 3.8% decrease on the prior year.

Gross Margin for the year was 39.4%, which was significantly below the previous year, when it achieved 42.3%. There were strong competitive pressures across the Appliances market but the Company faced particular problems with the Omega product range. Competitive pressures drove down gross margins and a number of Omega cooking products had to be exited to allow for the introduction of improved products. This resulted in lower gross margins as the discontinued stock was sold.

Operating expenses increased on the prior year by 3.8%, with the major increase being promotion expenses associated with the launch of 'everdure by heston blumenthal' barbeques in the United states. Rental costs also increased as the prior year had some one-off savings of $1.5 million.

The above factors delivered a 42.1% decrease in EBITDA compared with the previous year, to $14.3 million. This result includes several non-recurring costs which total $1.5 million, such that Underlying EBITDA for the year was approx. $15.7 million. These Non-Underlying costs, some of which were non-cash, were:

	2018 $'000
- Closure of two showrooms	842
- Relocation of Compliance & R&D team	146
- Re-arrangements at Auckland Airport G-Shock store	127
- Write-down of residual inventory	340
Total	1,455

The Company maintained its strong balance sheet and sound cash flows, despite the lower profit and the payment of a total of 11.0 cents per share dividend in the period. Net Debt increased a little, to $6.0 million, but remains low.

The Directors have declared a fully franked final dividend of 3.0 cents per share, with a record date of 19th March 2019 and payable on 5th April 2019. This dividend, combined with the interim dividend of 4.0 cents per share which was paid in September 2018, results in a total dividend of 7.0 cents per share, fully franked, for the year representing a payout ratio of 86.5 percent.

CONSUMER PRODUCTS

The Consumer Products division had a generally solid year in difficult market conditions, with Revenue growing 1.8% to $106.8 million. The strong performing categories were watches in Australia, BBQs and, in New Zealand, Pioneer Electronics. The remaining product categories held their market position, with sales similar to the previous year, but did not add growth to the division.

In New Zealand, watch sales were negatively impacted by disruptive changes to the Auckland G-Shock airport store where the retailer was underperforming due to apparent funding constraints and as a result, Shriro will assume the operation of this very successful store. Costs of $127,000 were incurred in this changeover.

Shriro has developed new products in cooling and gas heating that will be released to the market in 2019. Potentially these products can be fed into the global distribution network Shriro has established.

Total EBITDA from the Consumer Products division was $13.9 million which was 14.0% below the prior year, due mainly to the investment in the USA BBQ launch.

BBQs 'everdure by heston blumenthal'

The BBQ brand 'everdure by heston blumenthal' continued its international expansion. The launch promotion in the USA was comprehensive and very well received. Total advertising and promotion costs for this product range were $2.6 million, with the majority of this expense focused on the US market, where the investment was expected to create material sales orders towards the end of the year. However, the uncertainty surrounding the current tariff negotiations between the US and China has led to order delays and lower sales in the last months of 2018. Whilst satisfactory negotiations between the Trump administration and China would lead to firm orders, Shriro is taking action to ensure sales into the USA are not unduly delayed.

Shriro has also taken a number of steps to improve productivity and control within the 'everdure by heston blumenthal' business, including relocating the Australian compliance, R&D and testing team to its head office in Sydney and is looking to appoint a proven executive as this brand's Export Sales Manager, to assist in driving the global expansion.

KITCHEN APPLIANCES

The Kitchen Appliances segment endured a tough year, due to some market decline, competition, currency headwinds and a phasing out of older products. The revenue generated was $74.3 million, which was 10.9% lower than the prior year. The industry suffered considerable discounting, which put pressure on gross margins.

Blanco retail appliances performed well with 19.0% sales growth, however all other Appliances categories experienced lower sales revenue compared to the prior year. The Omega product range had a particularly poor year with the need to phase out superseded products in a period of intense competition.

The Commercial Sales operation, which markets primarily to developers, faced very tight market conditions as high-rise apartment demand slowed and some projects were deferred.

In total, the Kitchen Appliances segment recorded EBITDA of $0.4 million for the year, with the main driver of this being the contraction of gross profit from the lower sales.

In anticipation of the continued mid-term headwinds in this business, the Company has completed the following;

- Closure of showrooms in Queensland and Victoria, with their function now carried out at the NSW showroom. This is expected to result in a cost reduction of approx. $900,000 per annum. The $842,000 cost to profit of this initiative has been taken up in 2018;
- The appointment of Carl Pauling, presently General Manager of Shriro's New Zealand operations, to a new role responsible for the Australian Kitchen Appliances division, covering all product groups. With support, Carl will also remain responsible for the New Zealand business;
- Changes in the Kitchen Appliances sales staff structure where resources will be focussed on the various channels to market rather than be heavily brand oriented;
- Commenced a refresh programme of the Omega brand;
- The appointment of Brad Street, a senior sales executive, to focus exclusively on the Developer (Commercial) market. Brad has a very strong background of successfully developing the commercial market for a number of appliances brands; and
- A renewed focus on a programme of negotiation with overseas suppliers to agree improved terms.

BALANCE SHEET AND CASHFLOW

Operating cash flows for the year, of $8.8 million, exceeded net profit after tax by 13.7%. Cash flows were particularly strong in the second half of the year with a strong focus on working capital. During this period the inventory level was corrected to be in line with the lower sales rate. At December 2018 a conservative view on inventory valuation resulted in a non-cash write-down of $340,000, relating to inventory that was unable to be cleared by that date. Trade debtors continue to be well controlled, with a low level of bad debts in the period.

Net Debt was $6.0 million as at 31 December 2018, assisted by the focus on working capital. The Company's gearing remains low with Net Debt to EBITDA of only 0.4 times at the end of the year. This strong balance sheet places Shriro in a sound position to take advantage of growth opportunities in the future. Work in this area continues but the Company takes a highly disciplined approach to the evaluation of acquisition opportunities.

OUTLOOK

The markets in many of the industries in which the Company operates remain volatile, with lower consumer confidence evidenced in some. Uncertainties in global trade conditions are also impacting sales of some products and margin pressure continues in the Kitchen Appliances division. In this environment, and given Shriro's historic seasonality favouring the second half, it is not possible to give clear guidance on likely results for the 2019 year.

The business is continuing its strong product development and innovation strategy and this is specifically focused on superior versions of existing products and range expansion into complementary products.

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ABOUT SHRIRO

The Group is a leading kitchen appliances and consumer products marketing and distribution group operating in Australia and New Zealand.

The Group markets and distributes an extensive range of Company-owned brands (including Omega, Robinhood, Everdure and Omega Altise) and third party owned brands (such as Casio, Blanco and Pioneer). Products include calculators, watches, cash registers, musical instruments, audio products, kitchen appliances, sinks & taps, laundry products, consumer electronics, car audio, amplifiers, professional DJ, Hi-Fi/speakers, fashion, lighting, gas heaters, gas barbeques, charcoal barbeques, electric heaters and cooling products.