Big River Industries Limited (ACN 609 901 377)

Big River Industries Limited (ASX:BRI)

Results Announcement – Half Year ending 31 December 2019

25 February 2020

Headlines *(1H20 amounts and percentage changes are quoted on a pre AASB16 basis)*

- Revenue of $126m was up 19% from 1H19 with solid growth in New Zealand delivering a strong sales contribution of over $14m. However, like for like revenue showed a decline of 3%, driven by weak residential construction markets in Australia.
- EBITDA of $6.2m (prior to acquisition costs of $0.3m), was up 38% on 1H19, with the geographic diversity of the Group assisting the earnings outcome.
- NPAT of $2.5m, was up 36% on 1H19.
- Favourable product mix and continued improved purchasing scale saw gross margin improve 170 bps.
- Despite significant impact on manufacturing from the East Coast bush fires and resultant log availability restrictions, earnings contribution from manufacturing was flat with the prior period. This was a solid result in the circumstances.
- The strategy to expand the distribution network via acquisition continued, with the acquisition of Big Hammer in Townsville, and the recently announced acquisition of Pine Design Truss & Timber in Adelaide. This continues the expansion of the Company's prefabrication capability.
- Gearing increased to 27% during the 1H20, as a result of the completion of the NZ acquisition, with headroom still existing in Company's acquisition facility to fund additional bolt-on acquisitions.
- Interim dividend declared of 2.4 cents per ordinary share, fully franked. The Company's dividend reinvestment plan ("DRP") will be in effect for this dividend.

RESULTS SUMMARY	Statutory	Before AASB16		
REVENUE	H1 FY20 ($m's)	H1 FY20 ($m's)	H1 FY19 ($m's)	Change
Total Revenue	**126.1**	**126.1**	**106.0**	**18.9%**
EBITDA	H1 FY20 ($m's)	H1 FY20 ($m's)	H1 FY19 ($m's)	Change
Distribution activities	**9.9**	**7.4**	**5.6**	**33.6%**
Corporate expenses	(1.9)	(1.9)	(1.8)	-6.8%
Manufacturing facilities	0.7	0.7	0.7	-6.5%
EBITDA (before acquisition costs)	**8.7**	**6.2**	**4.5**	**37.8%**
Acquisition costs	(0.3)	(0.3)	(0.2)	-34.9%
EBITDA	**8.4**	**5.9**	**4.3**	**37.9%**
Depreciation and amortisation	(3.9)	(1.6)	(1.3)	-22.7%
Interest	(1.3)	(0.8)	(0.4)	-97.4%
Taxation expense	(0.9)	(1.0)	(0.8)	-34.5%
NPAT	**2.3**	**2.5**	**1.8**	**36.3%**
NPATA [1]	**2.4**	**2.6**	**2.0**	**32.9%**

[1] NPATA = NPAT before post tax amortisation of acquired intangibles.

Registered Office:
Trenayr Road
Junction Hill NSW 2460, Australia

Mailing Address:
PO Box 281
Grafton NSW 2460, Australia

Trading Summary

Total sales revenue for the half year 2020 increased 19% to $126m, on the back of the continued expansion of the distribution network, a critical component of the Big River strategic plan. Geographic diversity has proven a key factor in managing the cyclical nature of the construction industry, and it has helped deliver solid results in 1H20 despite challenging industry dynamics. While like-for-like sales declined 3%, improved product mix and the favourable construction segment exposures, saw Distribution gross margin improve 170 bps, contributed to by 40 bps in procurement scale benefits, 40 bps in Australian product mix benefits and 90 bps due to the impact of the higher margin NZ business. This contributed to help offset the impact of the like for like revenue decline.

As is typically the case, performance by region varied, with QLD and NZ regions both showing revenue growth in 1H20, while NSW and Southern Region (VIC, SA and WA) declined on a like for like basis.

So too the results by market segment were varied, with a solid first quarter in the formwork segment offset by a weaker second quarter, as multi residential projects continued to decline and some delays occurred in commercial and infrastructure projects. Building Products revenue, largely going into detached housing, alterations and additions and medium density residential construction, was soft in the first quarter, but showed growth in quarter two, with several divisions' market share improving and attracting new residential building customers and projects. Positive house price growth along with continued low interest rates and easing lending conditions have started to result in a stronger pipeline for the Company's major residential builders, although a full recovery is not expected until FY2021. Whilst the Company has grown its exposure into some key specialty plywood and architectural markets, this segment also suffered small declines on a like for like basis, although the strength of the NZ market offset this situation.

Balance Sheet & Cashflow

Net debt at 31 December 2019 was $25.4m an increase of $10.3m on the 30 June 2019 position, predominantly due to the completion of the NZ acquisition in mid July 2019, and the Townsville acquisition completed in August 2019. Cash conversion ratios were in line with the Group's longer term averages at 74%, despite some increases in working capital due the addition of the acquired businesses and higher investments in inventory. The Company's working capital to sales ratio for 1H20 of 19%, whilst increased on the 18% achieved in the prior period, remains within the Board's target range, as some newly acquired businesses increase the historic working capital required in the business.

Gearing levels (measured as net debt to net debt plus equity) at December 2019 were 27%, an increase on the prior period of 20%, due to the completion of the acquisitions noted. On a multiple to EBITDA measure, net debt is still considered to be conservative.

The Board has declared a dividend of 2.4 cents per ordinary share fully franked, balancing the cash flow demands of the strong acquisition growth opportunities, whilst recognising the solid profitability outcome achieved in 1H20. The Company's DRP will be in effect for this dividend with the relevant issue price being the volume-weighted average share price of the Company's shares sold on the ASX during the ten trading days commencing on the second trading day following the relevant record date. A DRP discount of 2.5% will apply to the dividend.

Outlook

The general outlook for construction looks positive, with the residential sector already at cyclical lows, and the pipeline for major commercial and infrastructure projects looking stronger. A sustained recovery is not expected until FY2021, with the major capital city markets of Melbourne and Sydney to remain below trend levels for 2H20.

The expansion of the product offering into the regional bridge systems package and the architectural panels market provides solid growth opportunities, and the positive margin contribution from this specialty range will continue to enhance gross margin outcomes.

Clearly the Covid-19 virus, and the impact of it on our China supply chain, needs to be fully assessed. However, we have significant stocks of imported formply in Australia and at the ports in China, and source from multiple factories across a wide geographic area. In addition, steps have also already been taken to enhance local production as a contingency, albeit this has also been impacted by the force majeure declaration on the Company's contractual log supply agreements as a result of the fires. Nevertheless, the diversity of the Company's supply chain and product mix position the business well to minimise the potential impacts of these unforeseen events.

The Company continues to actively pursue its acquisition strategy and remains disciplined in the acquisition metrics used. Opportunities to acquire businesses during weaker market conditions offer future upside in value and earnings per share growth.

The business is well placed for a medium term market upturn in construction, having acquired further distribution and product sourcing scale. We expect that short term performance will be impacted by tighter log supply due to the recent bushfires as well as the uncertainty related to Covid-19. However, we anticipate that revenue and earnings for 2H20 should not differ materially from those in 1H20.

Jim Bindon, Big River CEO, said: "Whilst the 1H20 presented a challenging market environment, particularly in residential construction, complicated by the significant fire events impacting much of the East Coast, the business has delivered a credible result, and significant growth in both EBITDA and EPS was a pleasing outcome. The strength of the Company's diversification strategy has come to the fore, and the continued expansion of the Distribution network is a major focus of the business".

Conference Call

Investors are invited to join a conference call hosted by Jim Bindon and Steve Parks on Tuesday 25 February 2020 at 11:00am AEDT. The dial in details are as follows:

Phone: +61 2 8038 5221 Conference ID: 1149395

For more information, contact:

Jim Bindon (CEO and Managing Director) Ph: (02) 6644 0903 e: jbindon@bigrivergroup.com.au

Steve Parks (CFO and Company Secretary) Ph: (02) 6644 0922 e: sparks@bigrivergroup.com.au

This announcement has been authorised for release to the ASX by order of the Board.