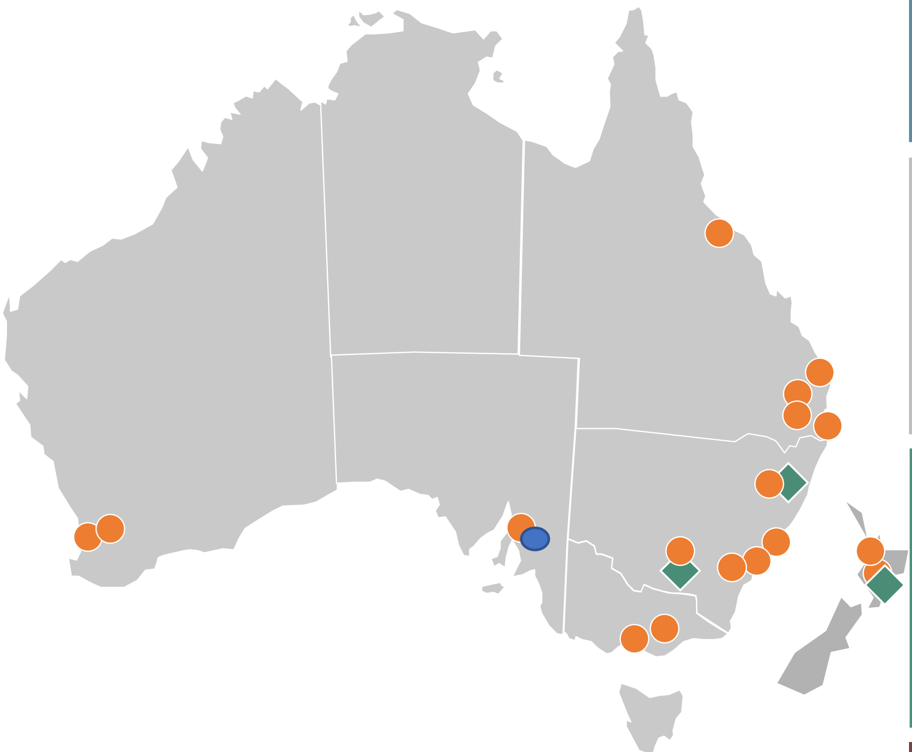
Big River Industries Limited (ASX:BRI)

1H2020 Results Presentation – 25 February 2020

Contents

Big River Today

Diversified by geography, industry segment, construction type and customer (1)



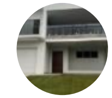
Big River manufacturing facilities

Big River sales / distribution sites

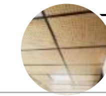
Acquisition to complete March 1

Target segments

Formwork Supplies – 24%

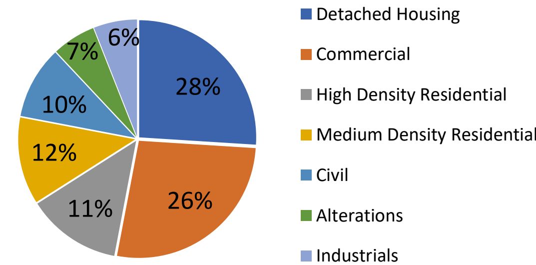


Building Products – 55%



Plywood & Specialty – 21%

Revenue by construction market



Asset mix

- 18 x Sales & distribution sites (1)
- 2 x Plywood manufacturing facilities
- 3 x F&T fabrication sites (1)
- 3 x Steel rolling lines
- 2 x Architectural panel manufacturing sites

Revenue by region

- QLD – 30%
- NSW/ACT – 27%
- VIC/SA/WA – 33%
- NZ – 10%
- >5,500 active trading accounts

(1) All references are pro forma FY20 including Pine Design acquisition

Performance Headlines

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Financial Results	❑ 1H20 Revenue of $126m, up 19% on 1H19 ❑ Growth in NZ was offset by like for like sales declined in Australia of 3%, as residential construction starts continued to weaken in both detached housing and multi-residential ❑ EBITDA of $6.2m (before acquisition costs and pre AASB16 restatement), reflecting a 38% increase on 1H19 ❑ EPS increased 17% (pre AASB16 restatement), a solid result given the increased equity and debt levels associated with the completed acquisitions ❑ Trade working capital performance (19%) and cash conversion (74%) were consistent with targets and slightly weaker than the prior period
Operating Highlights	❑ Distribution margin continued to increase, up 170 bps to 20%, as higher margin product categories grew stronger than the traditionally lower margin Formwork segment ❑ Total formply volumes grew 10% versus the prior period, despite a slight decline in overall Formwork segment sales, as market share from the dual local & Chinese supply chain continues to gain traction ❑ After significant manufacturing cost-out initiatives in FY19 ($4.5m), a further $0.5m cost reduction occurred in 1H20. ❑ Earnings from manufacturing stabilised in 1H20, despite significant log supply disruption due to the fires
Strategic Initiatives	❑ Acquisition of Big Hammer in Townsville completed on 1 August 2019, and has been fully merged with the existing Big River Townsville site ❑ Announcement of Pine Design acquisition in the Adelaide market is expected to complete in March 2020, which will increase Big River's national Frame & Truss prefabrication facilities to three ❑ Integration of NZ acquisition performing very well, with strong 2-way product synergies being executed in 2H20 ❑ Expanding the Australian product offer in engineered bridge systems and the specialty plywood range.

Operational Summary

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Sales Revenue	❑ 1H20 revenue of $126m was up 19% on 1H19 ❑ Weaker residential markets and some project delays in Infrastructure and Commercial construction softened the operating environment, resulting in a like for like sales decline of 3% ❑ QLD and NZ regions showed like for like sales growth, which was pleasing in QLD in particular, where the addressable market reduced ❑ Whilst sales in NSW and Southern region declined on a like for like basis, customer breadth and product mix was improved, helping build a stronger base for when market growth restarts ❑ Excellent growth in NZ for external façade recladding projects (up over 30% on prior period), and the project pipeline for 2H20 and FY2021 looks positive
Manufacturing & Operations	❑ Improved supply position in China secured, with sourcing now occurring from multiple sites across varying geographies ❑ Notwithstanding the challenges of Covid-19, increasing the product offer from China to supply several products to the NZ market creates further opportunities ❑ Force Majeure notice from hardwood log supplier in November 2019 following fires around Grafton factory. Subsequent notice was also received in January 2020 regarding pine log supply for the Wagga site ❑ Whilst manufactured volumes of construction plywoods declined some 15% on 1H19, steel and architectural panel volumes were up (circa 5%), as were Frame & Truss manufactured quantities
Acquired Businesses	❑ The contribution from the acquisitions in Geelong, Perth, Townsville and NZ exceeded our expectations ❑ Product extensions across all acquired sites performing well with staff training on the expanded range completed

Group Strategy

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Three in one business model

- ❑ Product and segment diversification have been the strength of Big River's strategy
- ❑ We continue to ensure all sites have exposure to Big River's core three market segments
- ❑ Branch segment diversity improved in 1H20 across the majority of sites
- ❑ Cost leadership position was maintained through market diversity and large project exposure
- ❑ Unique product offer to be extended across all sites

Grow scale through expanded distribution

- ❑ Townsville and Adelaide (March 1st completion) acquisitions continue the expansion of the Group
- ❑ Prefabrication assets now positioned in 3 of the major cities
- ❑ Product extensions occurring for regional civil products (Bridges) and the architectural fit-out markets (NZ range)
- ❑ Continue to extract scale benefits from the expanding national distribution model, leveraging purchasing scale and the cost leadership model

Enhanced financial performance

- ❑ Distribution gross margin improvement continued in 1H20 on the back of increased purchasing power (40 bps), favourable product mix (40 bps) and the NZ business contribution (90 bps)
- ❑ EBITDA margin improved 50 bps on FY19 result, despite a contracting market environment
- ❑ Targeted product mix has seen manufacturing gross margin up 5%, helping maintain EBITDA despite volume declines and hence higher fixed cost per unit
- ❑ New ERP system implemented across 5 sites, with the balance to occur during 2H20
- ❑ Balance sheet management continues to be closely managed, with working capital improvement expected in 2H20

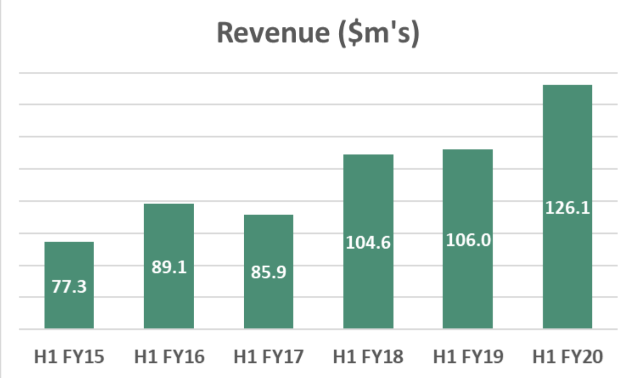
Earnings Summary

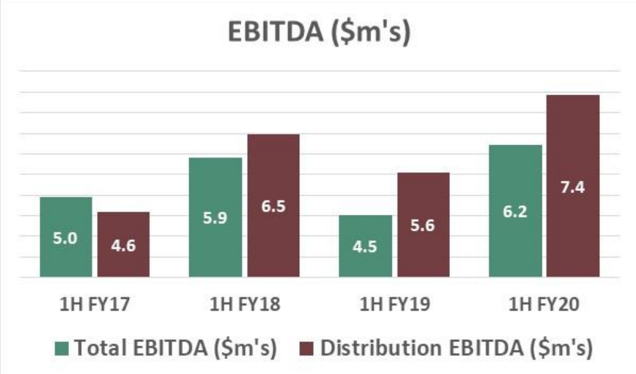
RESULTS SUMMARY	Statutory	Before AASB16		
REVENUE	**H1 FY20 ($m's)**	**H1 FY20 ($m's)**	**H1 FY19 ($m's)**	**Change**
Total Revenue	**126.1**	**126.1**	**106.0**	**18.9%**
EBITDA	**H1 FY20 ($m's)**	**H1 FY20 ($m's)**	**H1 FY19 ($m's)**	**Change**
Distribution activities	**9.9**	**7.4**	**5.6**	**33.6%**
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.

Key Financial Measures			
Revenue	$126.1m	↑	18.9%
EBITDA (Statutory) [1]	$8.7m	↑	93.4%
EBITDA (Pre AASB16) [1]	$6.2m	↑	37.8%
NPAT (Pre AASB16)	$2.5m	↑	36.3%
NPATA (pre AASB16)	$2.6m	↑	32.9%
EPS (Pre AASB16)	4.0 cents	↑	16.6%
Cash Conversion	73.6%	↓	-17.1%
Interim Dividend	2.4 cps	↑	9.1%

[1] Before acquisition costs





Balance Sheet

	Statutory	Before AASB16	
Balance Sheet	**31 Dec 19 ($m's)**	**31 Dec 19 ($m's)**	**30 Jun 19 ($m's)**
Cash	-	-	1.2
Receivables	34.3	34.3	43.1
Inventories	38.2	38.2	37.2
Fixed assets	27.4	27.4	28.0
Right-of-use assets	18.8	-	-
Intangibles	27.9	27.9	26.3
Deferred tax asset	2.8	2.4	2.4
Other	2.0	2.0	0.8
Total Assets	**151.4**	**132.2**	**139.0**
Payables	27.5	27.5	36.3
Deferred consideration	-	-	16.6
Borrowings	23.4	23.4	14.0
Lease liabilities	21.9	2.0	2.3
Current tax liability	0.2	0.2	0.1
Deferred tax liability	0.1	0.1	0.1
Contingent consideration	3.6	3.6	3.6
Provisions	4.7	4.7	4.5
Total Liabilities	**81.4**	**61.5**	**77.5**
Net Assets	**70.0**	**70.7**	**61.5**
Net Bank Debt $m's	*25.4*	*25.4*	*15.1*
Gearing %	*26.6%*	*26.4%*	*19.7%*
TWC $m's	*47.0*	*47.0*	*44.8*
TWC (% revenue)	*18.7%*	*18.7%*	*17.8%*

- Trade working capital (TWC) as a percentage of revenue was 19% on a per annum basis
- The increase in TWC in dollar terms of $2.2m is due to the acquisition of Big Hammer along with additional stock
- Average debtor days during the half were 56 days compared to 55 days in 1H19 and 58 days for all of FY2019
- The increase in inventory is primarily from acquisitions
- The increase in intangibles primarily reflects the acquisition of Big Hammer
- The reduction in deferred consideration relates to the acquisition of the New Zealand businesses, comprising shares issued and cash paid to the vendors in July 2019
- Net debt increased by $10.3m to $25.4m, primarily from payment of the deferred consideration of the New Zealand acquisitions offset by the issue of shares in July 2019
- The Group's bill facility is primarily used for acquisition funding. Headroom on this facility at 31 December 2019 was $7.5m
- The impact of AASB16 "Leases" at 31 December 2019 included the recognition of Right-of-use assets of $18.8m and corresponding lease liabilities of $19.9m
- The reduction in receivables and payables at 31 December from 30 June is a reflection of the December 2019 seasonality

Cash Flow

Cash Flow	H1 FY20 ($000's)	H1 FY19 ($000's)
Receipts from customers	148.2	127.0
Payments to suppliers/employees	(143.9)	(123.3)
Other revenue	0.1	0.1
OCFBIT	**4.4**	**3.8**
Interest paid	(0.8)	(0.4)
Income tax paid	(1.0)	(1.5)
Operating Cash Flow	**2.6**	**1.9**
Capital expenditure & Intangibles	(0.9)	(0.9)
Business acquisitions	(16.5)	(4.4)
Payment of deferred consideration	(0.2)	-
Investing Cash Flow	**(17.6)**	**(5.3)**
Net proceeds from issue of shares	6.1	-
Borrowings - proceeds	9.0	4.5
Borrowings - repayments	-	(1.0)
Net repayment of finance leases	(0.3)	(0.3)
Dividends	(1.4)	(1.8)
Financing Cash Flow	**13.4**	**1.4**
Net Cash Flow	**(1.6)**	**(2.0)**

- Operating cash flow before interest and tax (OCFBIT) as a percentage of EBITDA was 74%
- Higher interest payments reflecting increased net debt
- Capital expenditure and intangibles was a combination of mobile plant, manufacturing equipment and tool of trade vehicles, as well as the rollout of new ERP system implementation
- Settlement of New Zealand acquisitions of $14.7m in July 2019 and $1.8m for Big Hammer in August 2019
- Interim dividend in respect of FY2020 of 2.4 cents per share, fully franked and payable on 3 April 2020, with DRP discount of 2.5% to apply

FY2020 Outlook

Market conditions

- 1H20 saw significantly challenging Australian market conditions, partially offset by favourable NZ conditions (although tourism and transport sectors are under some pressure from the Covid-19 impact).
- The larger projects pipeline for 2H20 is looking more positive than 1H20, and residential builders are also reporting improved sales activity
- The widespread bushfires have and will continue to impact results during FY20. Force Majeure on log supply remain in place and impacted EBITDA by circa $0.1m in 1H20
- Large quantities of burnt wood will be processed in 2H20, creating uncertainty as to the operating outcomes. Impact on 2H20 EBITDA could be in the order of $0.5m
- The Formply supply chain from China in the wake of Covid-19 is a significant uncertainty, but the company is well placed to meet our customers requirements given our diversified supply options

Strategy execution

- Full launch in Australia of the selected NZ product range occurring in Q3. This can positively impact margins at both gross margin and EBITDA level
- Significant losses of regional bridges from the fire events present solid opportunities for 2H20 for our engineered bridge systems
- The pipeline of acquisition opportunities is strong, with businesses being assessed in all four sales regions

Earnings Outlook

- Whilst lead indicators for construction activity look improved, minimal benefit is expected until FY2021
- The business is well placed for a medium term market upturn in construction, having acquired further distribution and product sourcing scale
- 2H20 earnings expected to not be materially different from 1H20 results

Appendix

PROFIT & LOSS ($m's)	1H2018	1H2019	1H2020 Pre AASB16	1H2020 Statutory
Revenue	**104.6**	**106.0**	**126.1**	**126.1**
EBITDA from Operations:				
- Distribution activities	6.5	5.6	7.4	9.9
- Corporate expenses	-1.4	-1.8	-1.9	-1.9
- Manufacturing facilities	0.8	0.7	0.7	0.7
EBITDA (before acquisition costs)	**5.9**	**4.5**	**6.2**	**8.7**
Acquisition costs	-0.2	-0.2	-0.3	-0.3
Statutory EBITDA	5.7	4.3	5.9	8.4
Depreciation & amortisation	-1.2	-1.3	-1.6	-3.9
EBIT	4.5	3.0	4.3	4.5
Interest	-0.3	-0.4	-0.8	-1.3
Taxation Expense	-1.3	-0.8	-1.0	-0.9
NPAT	**2.9**	**1.8**	**2.5**	**2.3**
NPATA	**3.1**	**2.0**	**2.6**	**2.4**

Key Financial Measures	Dec-17	Dec-18	Dec-19 Pre AASB16	Dec-19 Statutory
Profitability				
Revenue	$104.6m	$106.0m	$126.1m	$126.1m
EBITDA (before acquisition costs)	$5.9m	$4.5m	$6.2m	$8.7m
EBITDA	$5.7m	$4.3m	$5.9m	$8.4m
NPAT	$2.9m	$1.8m	$2.5m	$2.3m
NPATA	$3.1m	$2.0m	$2.6m	$2.4m
Earnings Per Share (cents)	5.52	3.39	3.95	3.65
Cash flow management				
OCFBIT	$3.4m	$3.8m	$4.4m	$4.4m
Operating cash flow	$1.1m	$1.9m	$2.6m	$2.6m
EBITDA to OCFBIT % (cash conversion)	60%	88%	74%	52%
Working capital (% annualised revenue)	16.3%	17.1%	18.7%	18.7%
Dividends declared per share (cents)	3.5	2.2	2.4	2.4
Dividend payout ratio (%)	64%	65%	61%	66%

CASH FLOW ($m's)	1H2018	1H2019	1H2020 Pre AASB16	1H2020 Statutory
Statutory EBITDA	5.7	4.3	5.9	8.4
Non-cash items & changes in working capital	-2.3	-0.5	-1.5	-4.0
OCFBIT	**3.4**	**3.8**	**4.4**	**4.4**
Interest paid	-0.3	-0.4	-0.8	-0.8
Tax paid	-2.0	-1.5	-1.0	-1.0
Operating Cash Flow	**1.1**	**1.9**	**2.6**	**2.6**
Net capital expenditure	-1.6	-0.9	-0.5	-0.5
Intangibles	0.0	0.0	-0.4	-0.4
Free cash flow	**-0.5**	**1.0**	**1.7**	**1.7**
Business acquisitions	-3.6	-4.4	-16.7	-16.7
Net proceeds from issue of shares	0.0	0.0	6.1	6.1
Proceeds/(repayment) of borrowings	3.2	3.2	8.7	8.7
Dividends paid	-1.8	-1.8	-1.4	-1.4
Increase/(decrease) in cash	**-2.7**	**-2.0**	**-1.6**	**-1.6**

NET CASH/(DEBT) ($m's)	Dec-17	Dec-18	Dec-19 Pre AASB16	Dec-19 Statutory
Cash at bank	0.8	0.0	0.0	0.0
Bank overdraft and trade finance	0.0	-0.2	-0.8	-0.8
Bank bills	-8.4	-11.4	-22.6	-22.6
Bank lease libility	-2.3	-2.2	-2.0	-2.0
Net Debt	**-9.9**	**-13.8**	**-25.4**	**-25.4**
Gearing % (Debt to Debt + Equity)	14.5%	18.9%	26.4%	26.6%

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