SHRIRO HOLDINGS LIMITED

RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2020

HIGHLIGHTS

- Sales revenue decline of 1.8% on the prior comparable period (pcp)
- EBITDA improved by 32.9% to $10.5 million pcp
- NPAT increased 74.1% to $4.7 million pcp
- Cash at bank was $19.7M with zero borrowings as at 30 June 2020
- Export revenue increased by 64.6% pcp
- Fully franked interim dividend declared at 3.0 cents per share.

RESULTS SUMMARY			
	1H20 Reported $m	**1H19 Reported $m**	**Change**
Revenue	78.6	80.0	(1.8%)
Gross Margin	38.8%	40.5%	
Operating Expenses [1]	(20.0)	(24.5)	(18.4%)
EBITDA	**10.5**	**7.9**	**32.9%**
Depreciation/Amortisation	(3.0)	(3.2)	(6.3%)
Interest	(1.0)	(1.1)	(9.1%)
Profit Before Tax	6.5	3.6	80.6%
Statutory Profit After Tax	**4.7**	**2.7**	**74.1%**

NOTES:

[1.] Operating Expenses for the half year to 30 June 2020 has been offset by the before tax recognition of $1,887,000 of Australia and New Zealand Government subsidies.

Shriro Holdings Limited ("Shriro") (ASX: SHM) today announced its half year results for the six months ended 30 June 2020.

During the six-month period ended 30 June 2020, performance across Shriro's product categories was varied, with retail customers impacted by enforced retail closures or "stay at home" directions. These directions led to self-imposed retail store closures due to reduced foot traffic in major shopping centres in the months of March and April 2020. The widespread store closures and the uncertainty of the economic impact led to a sudden and significant loss of sales in Australia and New Zealand, which resulted in March and April being down 21.8% and 40.8%, respectively.

An immediate restructure of operating costs was required. So, in addition to rationalising office premises which commenced last year, Shriro postponed planned marketing expenditure and reduced staff working hours by 40% as well as executing full and partial stand-downs of certain roles and agreed to reduce Director's and Management's pay of 20% and 40% respectively for the period of April to May. Despite a sales revenue decline of 1.8% for the period, EBITDA improved by 32.9% to $10.5 million due to these prudent measures.

The significant reduction in revenue allowed the Company to qualify for both the Australian Government's JobKeeper Scheme and the New Zealand Government's Wage Subsidy Scheme. Participation in both Schemes has greatly assisted the Group's efforts to ensure business disruption and employment stand downs were kept to a minimum.

The salary related savings and operating efficiency improvements over the prior year resulted in an operating expense reduction of 18.4% as compared to the pcp.

Gross Margin for the period was 38.8%, slightly lower than the previous year, due to depreciation of the Australian dollar and the Group's low margins on Appliances in the retail segment. Price increases have been implemented across all product categories to begin rectifying any margin deficits.

Shriro remains focused on protecting its balance sheet by controlling stock purchases and adhering to its insurer's customer credit limits which increased the cash balance. The Company paid a dividend of 3.0 cents per share in March 2020, in line with the prior year and finished the half with net cash of $19.7M compared to $1.1M at 30 June 2019. Shriro has total borrowing facilities of $27 million which were not drawn down and expire on 18 January 2021.

Until the longer-term economic outcomes of COVID-19 are fully appreciated, the Board will be taking a conservative approach to its capital management strategy and has declared a fully franked interim dividend of 3.0 cents per share, with a record date of 4th September 2020 and payable on 23rd September 2020.

The Group's CEO, Tim Hargreaves said "the April to June quarter was a time of uncertainty and for needing to respond quickly to events outside of the Group's control. The way our staff demonstrated complete and at times selfless flexibility to ensure business continuity whilst maintaining care and concern for each other is to be commended. Like many other businesses, we have been required to find new ways of operating and the staff have responded and adjusted well.

Whilst times remain uncertain with international and state borders closed and economic conditions continuing to be temporarily supported by government subsidies, we are hopeful that the economy continues to respond as well as can be expected. Notwithstanding the need to be alert to potential new challenges, the team is focused on building strong brands that can succeed into the future."

AUSTRALIA

Australia's EBIT increased by 24.2% to $5.9 million with Sales Revenue declining 3.2% to $58.3 million over the pcp.

In line with the previously announced strategy, the last regional showroom, located in Perth, was closed during the period.

Warranty costs increased 15% as more end-consumers were at home due to COVID-19.

Casio calculators, keyboards and appliances for the residential renovation market performed well while watches underperformed through the period of retail closures and reduced consumer confidence. Watches have since recovered from May 2020.

The seasonal products division which includes heating, cooling and BBQs performed in line with the prior year, although heater sales did not reach their full potential due to COVID-19 related supply disruption.

The Omega Appliances brand and product refresh occurred in the half and was successful in gaining increased in-store brand presence. The brand refresh is being supported by a greater investment in digital and ecommerce assets and with planned margin improvements, management is expecting an improved contribution from the division in the year ahead.

The commercial appliances division was down on the prior year as a result of the subdued housing market, however based on the positive market response to the new Omega range and new developer relationships, the division should benefit once the general housing market improves.

NEW ZEALAND

The New Zealand business reported EBIT was $1.7M, up 95.9% on the prior year whilst revenue decreased 5.9% on prior period to $16.4 million.

Despite the loss of revenue in April, sales in the months of May and June grew compared to the same period last year, particularly in music equipment and appliances. The strong finish to the half assisted the EBIT result.

INTERNATIONAL

Shriro's international barbeque business delivered an EBIT loss of $0.1M, which was an improvement of $0.7M over the pcp. Sales revenue for the period increased by 64.6% to $3.9M.

Shriro aspires to grow its market share in the US. Whilst the US is struggling with the economic uncertainty caused by COVID-19, management will focus on its ecommerce and digital strategy until normal bricks and mortar retail conditions return. Product innovation and development is at the heart of the brand DNA and continues to be refined in the US range through our customers engagement and feedback initiatives.

The Company experienced growth in European BBQ sales and the positive sell-through of inventory in stores towards the end of the season should have a positive impact on support for the brand next year.

BALANCE SHEET AND CASH FLOWS

Operating cash flows for the half year were $19.0 million (402% of NPAT), an improvement of $6.4M over the previous corresponding period. This was primarily due to increased profits and management's cautious approach to inventory ordering. The balance sheet has $19.7 million cash at bank, zero borrowings (total facility available is $27 million) and $51.0 million in net tangible assets.

SUBSEQUENT EVENTS

Management will be relocating Shriro's head office in the second half of 2020. A surrender deed was signed in July 2020 which will result in a second half pre-tax profit contribution of approximately $2.3M. The new office is planned to be at a lower cost.

OUTLOOK

Uncertain economic conditions make it difficult to forecast the full year results as Shriro's key trading period are in the months leading up to Christmas which will undoubtedly be impacted by unannounced government directives and initiatives which influence consumer confidence and hence spending.

Despite the economic uncertainty, we expect the Group's products to remain resilient, allowing continued focus on building brands that succeed into the future.

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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.