

Big River Industries Limited (ASX:BRI)

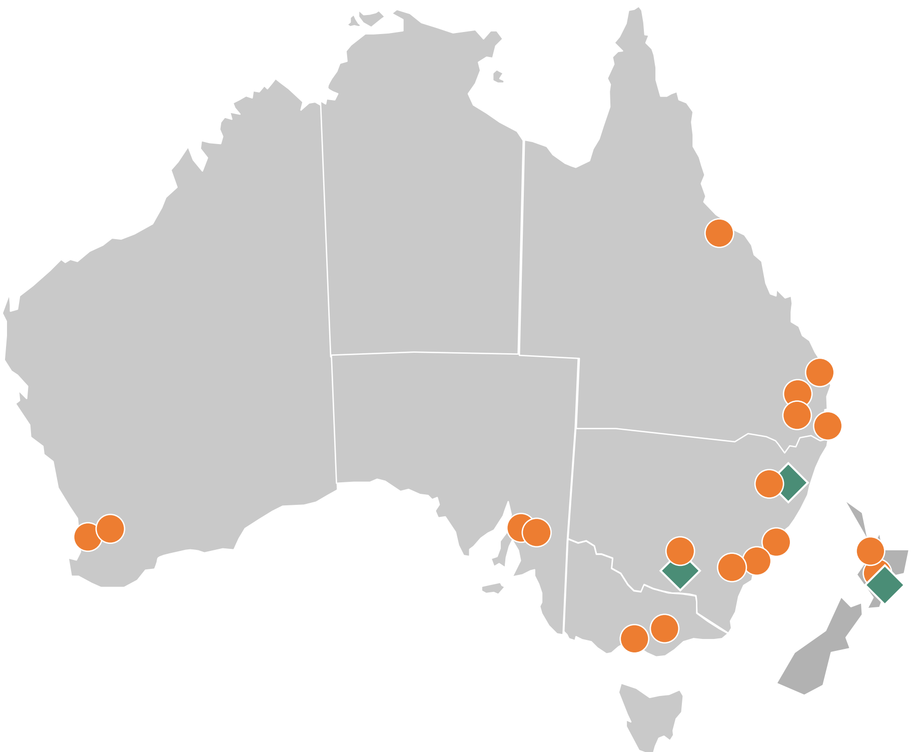
1H21 Results Presentation – 23 February 2021

Contents

BigRiver
Building Australia for over 100 years
SABDIA
Trade Centre

Big River Today

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

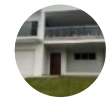


Big River manufacturing facilities

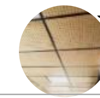
Big River sales / distribution sites

Target segments

Formwork Supplies – 24%

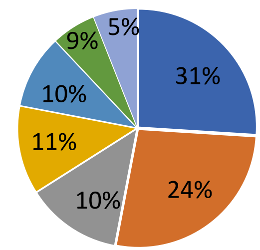


Building Products – 56%



Plywood & Specialty – 20%

Revenue by construction market



Asset mix

- ❑ 18 x Sales & distribution sites
- ❑ 2 x Plywood manufacturing facilities
- ❑ 3 x Frame &Truss fabrication sites
- ❑ 3 x Steel rolling lines
- ❑ 2 x Architectural panel manufacturing sites

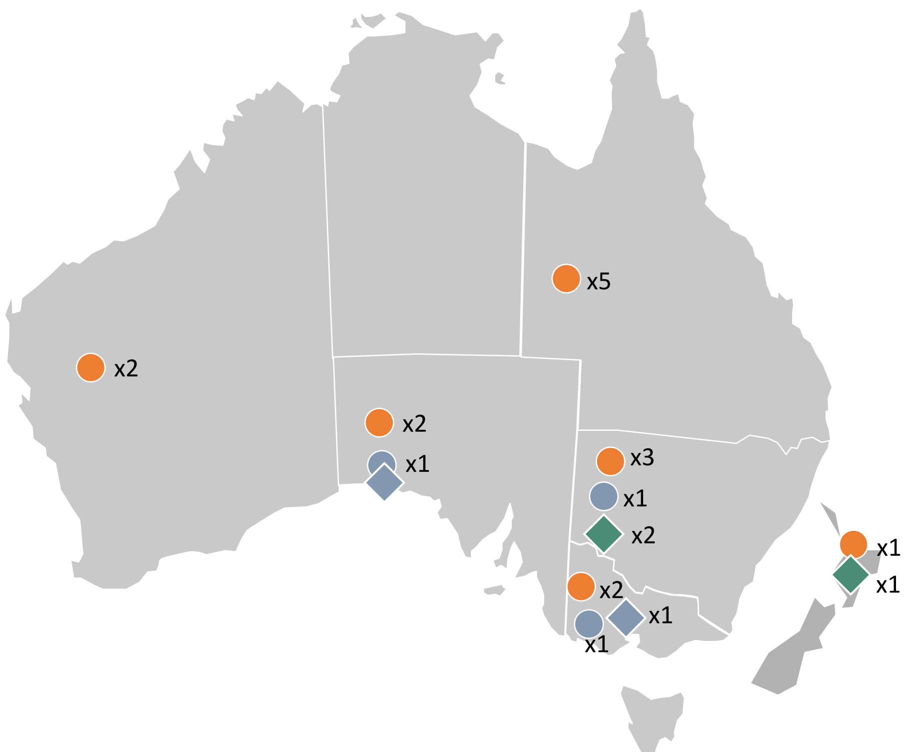
Revenue by region

- ❑ QLD – 30%
- ❑ NSW/ACT – 26%
- ❑ VIC/SA/WA – 34%
- ❑ NZ – 10%
- ❑ >6500 active trading accounts

(1) All references are pro forma 1H21 (excluding TWP acquisition)

Big River & TWP Combined

Diversified by geography, industry segment, construction type and customer



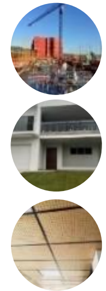
BRI Manufacturing facilities

BRI Sales & distribution sites

TWP manufacturing sites

TWP Sales & distribution sites (includes SA J.V.)

Target segments

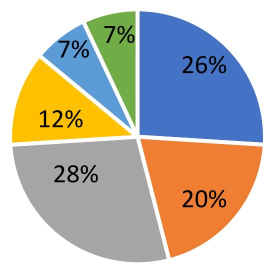


Formwork supplies– 20%

Building products – 46%

Plywood & specialty – 34%

Revenue by construction markets



Asset mix

- ❑ 4 x manufacturing sites
- ❑ 22 sites in total
- ❑ $55m net Working capital (or 18% to sales)

Revenue by region

- ❑ QLD – 27%
- ❑ NSW/ACT – 25%
- ❑ Vic/SA/WA – 40%
- ❑ NZ – 8%
- ❑ Total customers ~ 8000

(1) All references are pro forma 1H21 (including TWP acquisition)

Performance Headlines

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Financial Results	❑ 1H21 Revenue of $133.5m, up 5.9% on 1H20 ❑ Achieved organic revenue growth again after a period of construction industry declines ▪ Like for like sales revenue increased 1%, including a 7% increase achieved in Q2 ❑ EBITDA of $10.0m (post AASB16) a 14.8% increase on 1H20 ❑ Underlying NPAT increased 38.8% to $3.1m ❑ Working capital ratio and cash conversion rates remained in the Board's target range (17% and 77% respectively) ❑ Non-cash asset impairment due to the future closure of Wagga manufacturing site of $9.4m after tax
Operating Highlights	❑ Distribution margin increased some 54 bps, continuing the expansion that has occurred since 2017 ▪ This is despite some sharp product price rises and international shipping rate increases during Q2 ❑ Revenue growth in the Formwork segment of 4% despite weakness in Commercial and multi-residential markets was a testament to the strong supply chain position the Company has developed ❑ Manufacturing cost-out initiatives totaled $1.4m in 1H21, taking total cost out initiatives since FY18 to over $7m ▪ This helped contribute to the more than doubling of manufacturing profit to over $1.8m
Strategic Initiatives	❑ Announcement of Timberwood (TWP) acquisition to complete in March 2021 ▪ Capital raise completed in December 2020 to fund the acquisition ❑ Successful funding application of $10m under the Government bushfire grants to facilitate consolidation of the Company's two plywood manufacturing sites onto a single site at Grafton ❑ Extension of the high margin Bridge Systems product offer to include full installation (where applicable) ❑ Underlying EBITDA margin continues to improve (up 60bps versus 1H20)

Operational Summary

Sales Revenue

- 1H21 revenue of $133.5m reflected the first like for like sales growth in 2 years
  - Strong growth was achieved in WA, QLD, SA and ACT offset by continued weaker sales results in NSW and Victoria due to Covid restrictions and the decline in multi-residential construction
- New Zealand sales revenue was down ~ 3%, a strong result given the major reduction in Commercial construction activity (particularly airport, retail, University and entertainment projects), segments the business is traditionally strong in
- Formwork and Building Products showed like for like sales growth (4% and 1% respectively) driven by strength in civil and renovation markets
- Strong demand for locally manufactured products reflects the challenges with international shipping and other Covid related supply disruptions, as well as strong penetration of the Company's Bridge System range

Manufacturing & Operations

- Despite major disruptions to international freight, the Company's strong position helped grow market share in the Formwork market and achieve modest improvement in Distribution gross margin (54bps)
- Material improvements in manufacturing efficiencies saw EBITDA more than double, despite volumes easing 5%
  - Labour and energy cost savings drove a $1.4m reduction in manufacturing cash costs
- Inventory reductions of over $1m in manufacturing stock reflects tight log supply and strong demand for locally made products

Acquired Businesses

- Frame & Truss factories suffered from reduced demand during 1H21 as housing starts were affected by Covid restrictions (despite strong approval numbers)
  - However, the pipeline of demand in response to Homebuilder is excellent, with both major F&T sites showing a 20% increase in sales in January, and a strong next 12 months ensured by the Homebuilder scheme
- New Zealand tracking to budget and expecting a solid 2H21
- Formwork growth continues through the successful expansion into acquired sites (Canberra, Gold Coast and Adelaide particularly strong)

Strategy – Timberwood (TWP) Acquisition

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Strategic reasoning	❑ TWP is a significant scale acquisition in Big River's high margin and differentiated Plywood & Specialty segment ❑ Transforms the Plywood & Specialty segment to over $100m in revenue, making BRI a leading player in Australian and New Zealand markets ❑ Diversified panels business with a strong exposure to commercial, industrial (re-manufacturing) and residential markets, providing further balance in the BRI construction sector mix ❑ Diverse client base of over 1500 repeat accounts creates excellent diversity and synergy opportunities
Growth options & synergies	❑ TWP operates sites in Canberra, Dandenong and Campbellfield and a JV in Adelaide ▪ Leveraging the BRI distribution sites in SA, WA, QLD and NSW offers solid future growth opportunities ❑ Marketing key products from the BRI manufactured range through TWP, opens up solid revenue growth opportunities (and vice versa) ❑ Common product range and suppliers creates purchasing synergy (and reduced working capital) opportunities ❑ The strong differentiated product offer creates future opportunities for BRI / TWP combined Greenfield expansion
Key Financial metrics	❑ Strong track record of growth in revenue and EBITDA, even during the LTM Covid period ❑ FY20 revenue of $51.3m and EBITDA > $6m (post AASB16) ▪ Revenue grew 6% in FY20 and is up 3% in 1H21 ❑ EBITDA margins of ~ 12% (post AASB16) will further drive improvements in BRI financial metrics ❑ TWP has a solid net working capital to sales ratio of < 20%, similar to BRI ❑ EPS accretion from the acquisition to be ~17%

Strategy – Manufacturing Consolidation

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Strategic reasoning

- The fires that affected the Hume (Tumut) supply region that began in early 2020 have reduced long term pine log supply from that region by 40%
- Excess pine resource available in northern NSW (Grafton) provides key long term resource sustainability to base a consolidation of the Company's two plywood factories, where significantly similar core competencies exist
- The Company's successful $10m grant under the State and Federal Government Bushfire Funding scheme for industry, provided the opportunity and assistance to undertake this project
- Both plants were operating below name plate capacity, so major restructuring of the Grafton site was not needed
- The significant removal of duplication by consolidating the sites was financially compelling

Support for Group Strategy

- Output across both sites in recent years had been reduced to focus on high value products exposed to reduced import competition
- Consolidation of the sites ensures no reduced ability to manufacture the Company's high value, profitable plywood range
- New specialised equipment as part of the project will further enhance efficiencies and margin from high value products
- Certain Key assets from Wagga will be relocated to Grafton to ensure all competencies are retained
- Enhanced capacity in the specialty range will help offset the intended reduction in production volume of lower value products (which will now be imported)

Financial impact

- The strategy change has triggered an asset impairment in 1H21 for Wagga assets not required in the future
  - This one off non cash impairment amounted to $9.4m after tax. This is predominantly in P&E fixed assets.
- The net impact of the manufacturing consolidation, supported by the Government funding, will improve future periods net profit and cash flow by circa $2m and $10m respectively
- Total EPS accretion of ~ 20% expected to be achieved by the end of FY2023

Earnings Summary

Financial Summary	H1 FY21 ($m's)	H1 FY20 ($m's)	Change
Revenue	**133.5**	**126.1**	**5.9%**
EBITDA & Other	**H1 FY21 ($m's)**	**H1 FY20 ($m's)**	**Change**
Distribution activities	10.1	9.9	1.8%
Corporate expenses	(2.0)	(1.9)	-4.5%
Manufacturing facilities	1.9	0.7	181.0%
EBITDA (before acquisition costs)	**10.0**	**8.7**	**14.8%**
Acquisition costs	(0.2)	(0.3)	31.7%
EBITDA	**9.8**	**8.4**	**16.6%**
Depreciation and amortisation	(4.4)	(3.9)	-11.9%
EBIT	**5.4**	**4.5**	**20.7%**
Interest	(1.0)	(1.3)	24.6%
Taxation expense	(1.3)	(0.9)	-38.3%
NPAT (before significant items)	**3.1**	**2.3**	**38.8%**
Asset impairment	(9.3)	-	-
NPAT	**(6.2)**	**2.3**	**-374.4%**

EBITDA is earnings before interest, taxes, depreciation, amortisation and significant items including impairment charges.

EBIT is earnings before interest, taxes and significant items including impairment charges.

- Asset impairment from proposed Wagga Wagga closure:

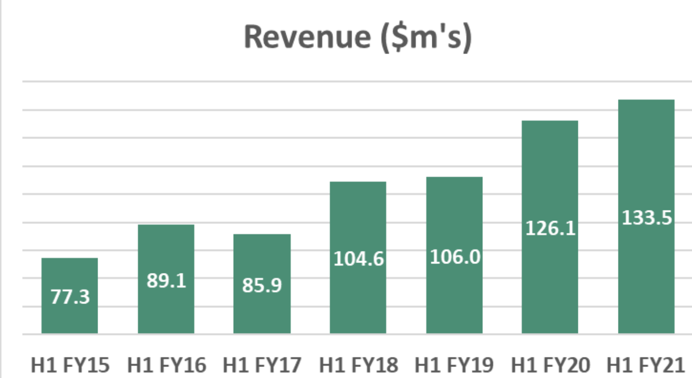
Asset impairment ($m's)	Amount
Buildings	1.2
Plant and equipment	10.6
Site restoration cost provision	1.0
	12.8
Tax on above	-3.5
After tax impact of impairment	9.4

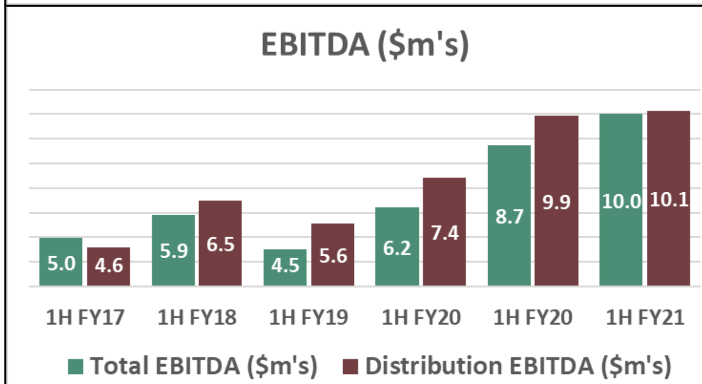
- Movement in AUD v NZD reduced NZ contribution by $0.1m

Key Financial Measures			
Revenue	$133.5m	↑	5.9%
EBITDA [1]	$10.0m	↑	14.8%
Underlying NPAT [2]	$3.1m	↑	38.8%
Underlying EPS [2]	4.95 cents	↑	35.7%
Cash Conversion	77.7%	↑	2.0%
Interim Dividend	2.6 cps	↑	n/a

[1] Before acquisition costs

[2] Before Wagga Wagga asset impairment





Balance Sheet

Balance Sheet	31 Dec 20 ($m's)	30 Jun 20 ($m's)
Cash	6.5	8.7
Receivables	36.1	43.6
Inventories	38.9	38.2
Fixed assets	15.0	27.8
Right-of-use assets	17.3	18.5
Intangibles	29.6	29.6
Deferred tax asset	6.5	2.8
Other	1.6	1.1
Total Assets	**151.5**	**170.3**
Payables	29.9	38.4
Borrowings	13.7	28.7
Lease liabilities	20.3	21.5
Current tax liability	0.4	0.9
Deferred tax liability	0.2	0.3
Contingent consideration	2.3	3.7
Provisions	6.6	5.1
Total Liabilities	**73.4**	**98.6**
Net Assets	**78.1**	**71.7**
Borrowings & lease liabilities ($m's)	*27.5*	*41.5*
Net Bank Debt ($m's)	*9.2*	*22.0*
Gearing on net bank debt (%)	*10.5%*	*23.4%*
TWC ($m's)	*46.7*	*44.5*

- Average trade working capital (TWC) as a percentage of revenue was 17.7% compared with 17.2% for FY20.
- Average debtor days of 50 days, an improvement over the 56 days for FY2020, and contributing to a strong operating cash flow performance.
- Inventory steady, only up $0.7m overall. Some growth in Australia offset by improved stock management in New Zealand
- Fixed asset reduction due to non-cash asset impairment on proposed closure of Wagga Wagga factory.
- Gradual closure expected to generate cash surplus of $10m+ from receipt of Government Grant, release of working capital, utilisation of future tax benefits, sale of land and buildings, less additional capital investment at Grafton and closure costs.
- Net bank debt of only $9.2m at 31 Dec 2020 due to receipt of monies from capital raise pending settlement of Timberwood acquisition.
- Bank debt gearing rises from 10.5% to 26.4% excluding benefit of capital raise.

Cash Flow

Cash Flow	H1 FY21 ($000's)	H1 FY20 ($000's)
Receipts from customers	154.8	148.2
Payments to suppliers/employees	(147.2)	(143.9)
Other revenue	-	0.1
OCFBIT	**7.6**	**4.4**
Interest paid	(0.9)	(0.8)
Income tax paid	(1.8)	(1.0)
Operating Cash Flow	**4.9**	**2.6**
Capital expenditure & Intangibles	(0.6)	(0.9)
Business acquisitions	-	(16.5)
Payment of contingent consideration	(1.2)	(0.2)
Investing Cash Flow	**(1.8)**	**(17.6)**
Net proceeds from issue of shares	13.8	6.1
Borrowings - proceeds	-	9.0
Borrowings - repayments	(13.6)	-
Net repayment of finance leases	(2.6)	(0.3)
Dividends	(1.5)	(1.4)
Financing Cash Flow	**(3.9)**	**13.4**
Net Cash Flow	**(0.8)**	**(1.6)**

- ❑ Headline operating cash flow before interest and tax (OCFBIT) as a percentage of revenue was strong at 77%.
- ❑ OCFBIT rises to 100% when allowing for $2.2m of allowed FY20 COVID payment deferrals paid in 1H21.
- ❑ Capital expenditure - 2H21 expenditure to be higher with a number mobile plant and truck replacements scheduled.
- ❑ Intangibles includes new ERP system implementation which is now substantially complete.
- ❑ Contingent consideration - payment of proportion of earn out to Vendors on achievement of EBITDA target.
- ❑ Issue of 10.6m shares via underwritten placement to partly fund the acquisition of Timberwood Panels
- ❑ Final dividend in respect of FY2020 2.4 cents per share was paid in October 2020.
- ❑ Interim dividend determined of 2.6 cents per share with DRP discount of 2.5% and the following key dates:

FY21 Interim Dividend Timetable	
Ex-date	18/03/2021
Record date	19/03/2021
DRP election date	22/03/2021
VWAP begins	23/03/2021
VWAP ends	7/04/2021
Payment date	21/04/2021

2H21 Outlook

Market conditions

- ❑ Big River expects the addressable market to be broadly in line with 1H21, but with improved detached housing volumes
- ❑ Homebuilder program provides a strong pipeline for 2H21, with 1H21 housing approvals up over 25%
    - 10 of the Group top 20 accounts are Project Home builders
- ❑ While Commercial and multi-residential segments remain soft, several new large projects are being tendered
    - And Queens Wharf (Brisbane) and Star Casino (Gold Coast), M-City and Melbourne Quarter (Melbourne) and Hospitals x 5 are under construction and ongoing
- ❑ Civil construction remains strong including metro rail system (Sydney) & Westgate and metro tunnels (Melbourne), including regional Bridge Systems opportunities

Strategy execution

- ❑ TWP acquisition expected to increase 2H21 revenue by 10% (Q4 contribution)
- ❑ The manufacturing consolidation project will be well advanced during 2H21, including equipment ordering, working capital reductions and manufacturing step-down plans for Wagga complete
- ❑ As has been the case since BRI listed, several acquisition opportunities are being assessed
- ❑ Scale advantages continue to be extracted, driven by increased purchasing power and revenue growth diluting corporate costs

Financial expectations 2H21

- ❑ The Company expects sales revenue in 2H21 to be > 15% ahead of 2H20 (including TWP contribution), this assumes no further material Covid disruptions
- ❑ Some disruption to manufacturing profit expected as the consolidation project begins to impact efficiencies (but will exceed 2H20 result)
- ❑ Distribution gross margin may come under pressure as supplier price increases fully flow through and contracted projects impact recoverable margin
- ❑ EBITDA expected to be in line with 1H21

Appendix

Key Financial Measures	Dec-17	Dec-18	Dec-19 Pre AASB16	Dec-19 Statutory	Dec-20 Statutory
Profitability					
Revenue	$104.6m	$106.0m	$126.1m	$126.1m	$133.5m
EBITDA (before acquisition costs)	$5.9m	$4.5m	$6.2m	$8.7m	$10.0m
EBITDA	$5.7m	$4.3m	$5.9m	$8.4m	$9.8m
Underlying NPAT	$2.9m	$1.8m	$2.5m	$2.3m	$3.1m
Underlying Earnings Per Share (cents)	5.52	3.39	3.95	3.65	4.95
Cash flow management					
OCFBIT	$3.4m	$3.8m	$4.4m	$4.4m	$7.6m
Operating cash flow	$1.1m	$1.9m	$2.6m	$2.6m	$4.9m
EBITDA to OCFBIT % (cash conversion)	60%	88%	74%	52%	78%
Working capital (% annualised revenue	16.3%	17.1%	18.7%	18.7%	17.7%
Dividends declared per share (cents)	3.5	2.2	-	-	2.6
Dividend payout ratio (%)	64%	65%	n/a	n/a	64%

PROFIT & LOSS ($m's)	1H2018	1H2019	1H2020 Pre AASB16	1H2020 Statutory	1H2021 Underlying
Revenue	**104.6**	**106.0**	**126.1**	**126.1**	**133.5**
EBITDA from Operations:					
- Distribution activities	6.5	5.6	7.4	9.9	10.1
- Corporate expenses	-1.4	-1.8	-1.9	-1.9	-2.0
- Manufacturing facilities	0.8	0.7	0.7	0.7	1.9
EBITDA (before acquisition costs)	**5.9**	**4.5**	**6.2**	**8.7**	**10.0**
Acquisition costs	-0.2	-0.2	-0.3	-0.3	-0.2
Statutory EBITDA	5.7	4.3	5.9	8.4	9.8
Depreciation & amortisation	-1.2	-1.3	-1.6	-3.9	-4.4
EBIT	4.5	3.0	4.3	4.5	5.4
Interest	-0.3	-0.4	-0.8	-1.3	-1.0
Taxation Expense	-1.3	-0.8	-1.0	-0.9	-1.3
NPAT	**2.9**	**1.8**	**2.5**	**2.3**	**3.1**

CASH FLOW ($m's)	1H2018	1H2019	1H2020 Pre AASB16	1H2020 Statutory	1H2021 Statutory
Statutory EBITDA	5.7	4.3	5.9	8.4	9.8
Non-cash items & changes in working capital	-2.3	-0.5	-1.5	-4.0	-2.2
OCFBIT	**3.4**	**3.8**	**4.4**	**4.4**	**7.6**
Interest paid	-0.3	-0.4	-0.8	-0.8	-0.9
Tax paid	-2.0	-1.5	-1.0	-1.0	-1.8
Operating Cash Flow	**1.1**	**1.9**	**2.6**	**2.6**	**4.9**
Net capital expenditure	-1.6	-0.9	-0.5	-0.5	-0.4
Intangibles	0.0	0.0	-0.4	-0.4	-0.2
Free cash flow	**-0.5**	**1.0**	**1.7**	**1.7**	**4.3**
Business acquisitions	-3.6	-4.4	-16.7	-16.7	-1.2
Net proceeds from issue of shares	0.0	0.0	6.1	6.1	13.8
Proceeds/(repayment) of borrowings	3.2	3.2	8.7	8.7	-16.2
Dividends paid	-1.8	-1.8	-1.4	-1.4	-1.5
Increase/(decrease) in cash	**-2.7**	**-2.0**	**-1.6**	**-1.6**	**-0.8**

NET CASH/(DEBT) ($m's)	Dec-17	Dec-18	Dec-19 Pre AASB16	Dec-19 Statutory	Dec-20 Statutory
Cash at bank	0.8	0.0	0.0	0.0	6.4
Bank overdraft and trade finance	0.0	-0.2	-0.8	-0.8	-1.4
Bank bills	-8.4	-11.4	-22.6	-22.6	-12.2
Bank lease libility	-2.3	-2.2	-2.0	-2.0	-2.0
Net Bank Debt	**-9.9**	**-13.8**	**-25.4**	**-25.4**	**-9.2**
Right-of-use lease liability				-19.9	-18.3
Total	-9.9	-13.8	-25.4	-45.3	-27.5
Gearing % (Bank Debt to Bank Debt + Equity)	**14.5%**	**18.9%**	**26.4%**	**26.6%**	**10.5%**

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