

NZX: MPG, ASX: MPP

*Metro Performance Glass Limited
Annual Shareholders' Meeting, 8 August 2022*

Chair's Address

Metroglass' vision is to be the leader in glass solutions. Our strategy is made of four pillars.

Delivering market-leading service to customers, developing our organisation capabilities, utilising Metroglass Group's scale and leadership position across the channels we operate in, and the quality of our assets to deliver glass solutions efficiently.

The Board believes that this strategy still holds despite the difficulties and uncertainties of our times.

The financial year 2022 was a hard and challenging year for Metroglass, and we recognise that our bottom-line result was disappointing. Simon will provide more detail so I will just highlight a few points.

Our resilience was truly tested during this year. The business had to operate a range of complex pressures, all while seeking to ensure we were able to supply to our customers' requirements consistently, and safely.

We were heavily impacted by the pandemic for a further year, by local effects through sickness and absences of our own staff and those of our direct customers, and also by the restrictions placed on the New Zealand community, particularly in Auckland, where we lost many days of sales while continuing to incur the associated costs. Across the construction sector the ongoing effects continued to be felt for a number of months after the restrictions were eased, and in some cases are still with us today.

Additionally, there were the more global impacts, principally on the supply chain, where we still experience high costs and unreliable shipping schedules, and the rapidly rising costs of raw materials.

During the latter part of FY22 we moved to re-establish our gross margin applying a series of price increases, these actions also continuing into the current year.

These are the two main factors that have contributed to a lower profit and reduced operational cash flows for the period. Our working capital increased driven by a greater volume of stock, and the cost increases of that inventory, this also had a flow through effect to debtors.

Despite the reduced operating cash flow, we elected to continue with the majority of our capital program, which was largely made up of long lead items. Improved double glazing and furnacing capacity place Metro in a strong position ahead of the significant regulatory changes in New Zealand, that are coming into effect from November this year.

Our capital investments and working capital changes has meant that our net debt increased during the year and the associated cover ratios consequently declined. At year end we were still within the agreed covenant boundaries and our lenders have been supportive.

This year as operations proceed, we believe we have now passed the peak and expect to see our debt reducing once again, providing the global and local effects of the pandemic continue to diminish.

As well as noting the challenges of the pandemic, we should always remember that we are in a competitive marketplace with an overhang of processing capacity. In NZ, our efforts to diversify our customer portfolio are progressing well and there have been significant changes in our customer base during the year. Sales in some segments and geographies have grown strongly, while we have maintained our position in others.

Our operations in Australia continue to improve. Our reputation as a reliable supplier of high-quality double-glazing is reflected in increasing sales demand and the associated improvement in bottom line performance.

Our customers do have a real choice of suppliers and our strategic focus on customer relationships, service performance and product quality has helped us sustain our market leadership position.

Some economic indicators are showing early signs of a decline in construction activity. Residential construction costs are rising and will dampen demand eventually. Looking ahead we see a continuation of challenging times.

The New Zealand building code changes aimed at providing better performing New Zealand homes will mean a significant increase in the use of high value (LowE) glass, this will further increase the cost to build a house, and this will come at a time of rising interest rates, housing affordability challenges and inflationary pressures in the construction sector.

And of course, covid is still with us and as we have seen can have a material impact at quite short notice.

The board and management continue to monitor a wide range of inputs and indicators and are preparing for a number of potential outcomes including a reducing demand.

With this expectation of a challenging future.

The board remains focussed on ensuring that the company is a successful and enduring glass processor, to do that it needs steady cash flows and a solid balance sheet.

As I outlined previously; our debt increased during the year and the associated ratios deteriorated. As we move away from the pandemic effects of last year and cash flow is restored, our focus returns to debt reduction once again. As we have consistently communicated, we continue to aim for that elusive ratio of 1.5 times net debt to EBITDA, and when we get there and other circumstances allow, we will be in a position to consider declaring a dividend.

To conclude, I would like to take the opportunity, on behalf of the board, to thank our Metroglass employees for their determination and resilience during this period and our, customers, suppliers and shareholders for their continued commitment and support through another incredibly challenging year.

Thank you, I will now ask Simon to follow with his presentation, after which we will open the meeting for questions.

Chair Executive Officers address

Thanks Peter.

Good morning everyone and thank you all for joining us both here in Auckland and online.

My name is Simon Mander, and I am the CEO of Metro Performance Glass.

I'd like to start by recognising our people right across the Metroglass group. The pandemic presented significant challenges for our teams again this year; their resilience has ensured that we have continued to deliver our market leading products and services to our customers.

Once again, in New Zealand our operations were shut for a sizable period as a result of the lockdowns in August and September 2021. The immediate impacts of the lost production days while still incurring the costs, and the flow on impact on inventory holdings, supply disruption and escalating input costs, significantly impacted financial performance.

Australian Glass Group progressed on their turnaround plan, with stable operational performance and delivered a modestly improved EBIT result even despite the impacts of Covid-19 and the heavy flooding in New South Wales.

While our net debt has increased this financial year, we have built buffer into our inventory levels to deal with ongoing supply chain disruption and invested in a series of capital items that are set to improve our capacity, quality, and capability, for the future home insulation changes in both NZ and Australia.

I am also proud of the progress we have made in our environmental, social and governance commitments. Our safety performance continues to improve, and this remains a key focus for the leadership team.

The apprenticeship scheme provides development opportunities for our people to grow. 79 staff are currently enrolled in the programme and 8 apprentices qualified during the year.

We are also beginning to bring together our sustainability programme of initiatives, with a focus for the coming year on understanding our carbon emissions and how we can take action to reduce this over time, along with the climate risk related disclosures in future reporting periods.

Metroglass is in the process of converting its loan in 5R solutions Limited to a 50% equity position, which will be equity accounted in our financials in the future.

5R are a glass recycling business capable of processing the full spectrum of waste flat glass that is generated by commercial and post-consumer markets and includes all of the processing glass waste from Metroglass.

5R have two reprocessing facilities in Auckland and Christchurch that recycles the glass into various new life products, such as feedstock for glass wool insulation and filter mediums.

We are proud to be partnering with 5R.

As the largest processor of flat glass in New Zealand we have the opportunity and responsibility to take positive action in our efforts towards sustainable outcomes for our communities and the environment.

Over the last year Metroglass has received recognition and a number of awards, and I'd like to share some of them with you today.

- In the 2022 Window and Glass Association Awards, Metroglass won the Designing with Glass – Residential award. As you can see in the picture, the architect designed a ships head

protected wind break which was installed by our Metro Direct Whangarei team using large and heavy toughened single glazed units.

- We were also the finalist in many other awards, including the New Zealand Health and Safety Awards – Business Leaders’ Health and Safety Forum Leader of the Year, reflecting Metroglass’ continued drive for safety and wellbeing performance.

I’ll now provide you with a brief summary of the group’s financial performance for the 2022 financial year:

- Group EBIT of \$5.9 million was at the low end of our range of our February guidance.
- The impact of the New Zealand Covid-19 shutdown during the year was severe. The rapid escalation of input costs also had a significant impact on profitability compared to last financial year.
- Our leverage ratio is above our capital management targets and, consequently, our focus for FY23 will be on essential capital and debt reduction.
- While net debt has increased from last year, we built contingency in our inventory holdings to navigate ongoing supply chain disruptions and invested in future capital equipment capability in both NZ and Australia.

In May 2022 we conducted the seventh of our 6-monthly customer surveys. These surveys provide us with feedback and guide our initiatives to address specific issues and general service levels and develop ways to generate value for our customers.

Overall, our ratings in New Zealand and Australia were largely consistent with previous surveys despite prolonged covid-19 operating challenges throughout the year. Customers were complimentary of our people, our communication and customer service, and overall responsiveness to their needs.

The supply disruptions right across the construction industry are also of concern for our customers, and we continue to make efforts to reduce volatility and impacts within our own supply chain.

I’d like now to take a moment to outline the supportive regulatory changes that are occurring in both Australia and New Zealand.

In Australia, we have talked previously about the 2022 National Construction Code changes that are to be introduced early in the 2023 calendar year. The changes to the thermal performance requirements are like that seen in New Zealand in between 2007 and 8. These code changes will necessitate the use of double glazing of a minimum standard to meet the NCC standard requirements in the colder climate zones of Australia. In some cases, where standard aluminum frames are used there will be a requirement to use higher performing Low E double glazing.

NCC changes in 2019 were for commercial buildings, and the AGG business saw an uptake in double glazing sales as a result.

In New Zealand, the Ministry for Business, Innovation and Employment are introducing changes to the minimum thermal performance requirements to comply with the new building H1 Energy Efficiency code. This is the first major change since the introduction of Double Glazing in 2007 and 8.

There is a significant amount of detail available in the MBIE consultation documentation, but I'll briefly summarise for you now.

New Zealand will move from the current 3 climate zones to 6, reflecting the differing local climates across the country, with each zone being set new thermal performance requirements for insulation – glass being one of them.

Currently, to comply with the building code a complete window, including the frame, must achieve a thermal performance rating of R0.26, and this is applied to all zones.

The new building code compliance increases performance requirements in all zones, in three phases:

- From this November: All zones increasing 42% over today's thermal performance to R0.37
- And from May 2023, Zones split into 3 R value requirements, with the coldest areas requiring R0.50 (an increase of 92% on today's thermal performance)
- and a final step in November 2023. which brings Zones 1 & 2 in line with Zones 3 & 4, at a thermal performance of R0.46 (an increase of 77% on today's thermal performance)

The use of standard aluminium frames in most residential applications will not achieve code compliance once the full extent of the changes is introduced, and almost universally these changes will require all double glazing to use high-performing Low E.

To put this into perspective, our mix of Low E is currently around mid-20% nationally, and this change should see this shift to 90-95% over the next 2 years.

We are excited and supportive of this change and were an active participant through the consultation.

Metroglass is well-positioned with world-class facilities – underpinned by our staff development, technical expertise, furnace capital strategy and our range of high-performing LowE glass products.

I'll touch briefly on the activity levels in the markets we operate.

In New Zealand, headline residential consents of over 50,000 reached historic levels in the 12 months to March 2022, and well above assumed industry capacity. Recently published research by Stats NZ

indicated that the rate of Code of Compliance issuance (or residential dwelling completion) has remained steady at around early to mid-30,000's – as you can see shown by the red line in the chart on your left. The delta between intentions to build and building activity continues to widen.

In Australia, similar affects are being observed with strong approvals growth but the rate of completions (again in red) taking longer – the graph to your right.

In the prior 12 months, the landed weighted average cost per sqm of glass increased significantly, and rapidly. Consistent with other industries, inflationary cost pressure has been evident across direct and indirect costs.

In New Zealand, Metroglass has responded with a series of price increases (a cumulative 26%), with a further price increase of 5% effective this September. These price increases are focused on improving gross profit performance from Q2 onwards

In Australia, which is a market that has traditionally had lower market pricing for glass; AGG have implemented cumulative price increases of 39%, in-part reflecting cost inflation pressures, but also supported by the increasing value of high performing glass being recognised throughout the market.

I'll next share our trading update for the first four months of FY23, being April to July 2022. All comparisons are for the same period in FY22.

- Year to date, group revenue is similar to prior year, with the New Zealand business softer and the Australian business above the prior year
- The Strong residential consents and approvals, are balanced by industry capacity constraints, and should support a stable pipeline in New Zealand and Australia
- New Zealand activity continues to be impacted by ongoing market disruptions and industry-wide material and labour shortages and this poses a risk
- Raw material and international shipping costs, while remaining historically high, have stabilised through quarter 1. The successful introduction of price increases and improved pricing disciplines are beginning to demonstrate positive trends for margin recovery from Q2 onwards.
- Sales in Australian Glass Group year to date are ahead of last year and are profitable, supported by strong market activity and consistent service and operational performance across each of the regions we operate in
- Recruitment remains challenging with a tight labour market and associated wage pressure

- Higher inventory costs lead to increased working capital funding requirements

Our outlook for FY23:

- New Zealand residential building consents are at record levels in the last 12 months. Capacity constraints in the industry mean that we expect building activity to continue, but the rate of execution due to wider industry issues are likely to be a drag
- Strong approvals activity in Australia and a similar capacity constrained industry have created a solid pipeline of work
- Current construction sector conditions continue to drive a challenging outlook in the short to medium term. Our focus remains on gross margin improvement, with the inflationary pressures in our supply chain and the constraints on labour not expected to improve in the near term
- Our strategic programme continues to unlock the potential of the business, with investments in capability, quality, and a strong focus on improving our offering to customers. This creates value opportunities for the business alongside building insulation regulation changes to be introduced in our markets during FY23
- We will be focused on our cost base and be ready to adjust and respond to future demand and activity levels

Given the levels of uncertainty that are prevalent, we will not be providing a full year guidance at this early stage and will update shareholders further on the group's financial performance through our interim results announcement in November.

Finally, our focus remains firmly on being a resilient organisation that provides excellent operational performance, maintains strong customer connections, and invests in and supports its people. I would like to reiterate our key goals which are to:

- Build resilience and defend our leadership position in a competitive New Zealand market
- To grow profitability in Australia, benefiting from increasing demand for double glazing
- Ensure our balance sheet is robust to cope with future risks and opportunities

Before I hand back to Peter, I would like to take the opportunity to thank all our shareholders, customers, suppliers, staff and the Board for their support over what has been a challenging year for all.

Thank you.

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