

Godfreys Group Limited

1H FY2017 Results Presentation

22 February 2017

John Hardy

Managing Director

Andrew Ford

Chief Financial Officer

Contents

- ④ Results Overview
- ④ 1H FY2017 Results Analysis
- ④ Trading Outlook
- ④ Appendices

Results Overview

Sales and Margin

- ⑥ Total Sales of \$92.4 million:
 - An increase of 2.8% on previous corresponding period ('pcp')
 - Includes contribution from The Service Company ('TSC') of \$4.9 million
 - Comparable (LFL) store sales down by 7.0%, Operating Gross Margins down by 3.5% pts
 - Impacted by continued trend towards stick vac's at lower prices and margins, lower USD and lower margin TSC business
 - Improvement in LFL store sales in Q2

Earnings

- ⑥ Underlying EBITDA of \$6.3 million, down from \$8.7 million in pcg
- ⑥ Underlying NPAT of \$2.3 million, down from \$4.5 million in pcg
- ⑥ Underlying EPS of 5.8 cents, down from 11.1 cents in pcg
- ⑥ Non-cash impairment of goodwill and other intangibles of \$24m reflecting a more conservative accounting position; no impact on current trading or bank covenants

FY17 underlying EBITDA forecast remains in the \$14 – 15m range.

Results Overview

Cash / Debt

- ⌚ Net Debt \$18.3m, down from \$21.6m at June 16
 - Cashflow from operations \$7.0m vs (\$1.1m) in pcp
 - Gearing⁽¹⁾ 18.3%

Dividend

- ⌚ Interim dividend of 2.5 cents per share, unfranked

(1) $\text{Net Debt} / (\text{Net Debt} + \text{Equity})$

Progress made on key strategic areas

- ⑥ Rebalancing the portfolio towards a majority franchise model
 - 4 stores converted in 1HFY17, a further 14 planned for 2HFY17 supported by a strong pipeline
- ⑥ Progress on key strategic areas – Product, Advertising and Training
 - Inventory product range review completed
 - Rationalisation of product range
 - New products being developed, gaps in the product range being addressed
 - Steady reduction of end of life and discontinued stock, with minimal impact on margins
 - More focused advertising strategy, “features and benefits” approach
 - Enhanced sales training programmes underway
- ⑥ Strategies in place to leverage the ongoing trend toward stick vac’s by broadening product range and focusing sales training
- ⑥ The foundations are in place, but it will take time for benefits to be realised.

Franchise strategy implementation progressing as planned

- ⑥ 60 corporate stores to be converted over 3 years
- ⑥ 18 stores targeted for FY17
 - 4 completed to end of December 2016
 - 14 planned for 2HFY17
- ⑥ Strong pipeline of prospective buyers
 - Phase I: Internal staff and existing franchisees
 - Phase II: Work underway to broaden this to outside interest; proactive marketing strategy including advertising in trade media and franchise expos
- ⑥ Implementation team led by Bernie Bicknell
 - Working on project full time following appointment of Andrew Ford as CFO
- ⑥ Majority of restructure costs of \$2.0m now expected to be incurred in FY18 & FY19

Profit and Loss Statement

	Underlying ⁽¹⁾		
\$ million	1H FY17	1H FY16	% Change
Sales	92.4	89.9	2.8%
Operating gross profit	47.0	48.9	(3.8%)
<i>Operating gross profit / Sales (%)</i>	50.9%	54.3%	(3.5%)
Other income	2.6	2.4	8.8%
CODB	(43.3)	(42.6)	1.6%
<i>CODB / Sales (%)</i>	46.9%	47.4%	(0.6%)
EBITDA	6.3	8.7	(26.9%)
<i>EBITDA margin (%)</i>	6.9%	9.6%	(2.8%)
Depreciation	(2.4)	(2.0)	18.5%
EBIT	4.0	6.7	(40.4%)
<i>EBIT margin (%)</i>	4.3%	7.4%	(3.1%)
Interest	(0.5)	(0.4)	14.6%
PBT	3.5	6.3	(43.9%)
Tax	(1.2)	(1.8)	(34.3%)
NPAT	2.3	4.5	(47.8%)

Headline Statistics:

	1H FY17	1H FY16
Underlying EPS (cents per share) ⁽²⁾	5.8	11.1
Dividend (cents per share)	2.5	7.5
Total Stores	223	223

Total Sales up by 2.8% (\$1.6 million) including the contribution from The Service Company acquisition, offset by lower LFL store sales from the shift in sales from barrel to stick vacs at lower prices

Operating gross profit reduction due to the impact higher of stick vac sales at lower margins, lower USD and the lower margin The Service Company business

Cost of doing business lower than pcg.

Depreciation higher due to prior period CAPEX, including rollout of new ERP (Pronto).

Interest cost higher due to \$3.0m debt facility to fund The Service Company acquisition. Net debt reduced overall

(1) See statutory to underlying Income Statement reconciliation on page 11.

(2) Underlying EPS is calculated based on an underlying NPAT of \$2.3 million (2016: 4.5 million) divided by the weighted average number of shares on issue of 40,779,391 (2016: 40,323,934).

Balance Sheet

\$ million	Dec-16	Jun-16	Change
Assets			
Cash and cash equivalents	4.7	1.4	3.2
Trade and other receivables	9.4	5.6	3.8
Inventories	35.5	35.0	0.4
Total current assets	49.6	42.1	7.4
Other receivables	1.8	1.7	0.1
Property, plant and equipment	15.6	16.4	(0.8)
Intangible assets	72.7	96.5	(23.8)
Deferred tax assets	4.0	5.2	(1.2)
Total non-current assets	94.1	119.8	(25.7)
Total assets	143.7	161.9	(18.3)
Liabilities			
Trade and other payables	25.2	19.9	5.3
Other current liabilities	6.3	7.8	(1.5)
Total current liabilities	31.5	27.7	3.8
Interest-bearing loans and borrowings	23.0	23.0	-
Other liabilities	7.6	6.7	0.8
Total non-current liabilities	30.6	29.7	0.8
Total liabilities	62.1	57.4	4.6
Net assets	81.6	104.5	(22.9)
Equity			
Share capital	109.5	109.5	-
Reserves	(44.2)	(43.7)	(0.5)
Retained earnings	16.3	38.7	(22.4)
Total equity	81.6	104.5	(22.9)

Cash increased from June 2016 principally due to strong operating cashflow (refer cash flow)

Receivables increased due to higher seasonal sales to franchise network on extended terms

Inventory increased marginally from June 2016 due to additional stock in transit (\$2.6m), offset by lower stock on hand (\$2.2m), including a reduction in product lines and End of Life (EOL) and discontinued inventory.

Property, plant and equipment decreased with CAPEX less than depreciation of the period.

Intangibles assets decreased by \$26.8 million as a result of the \$24.0m non-cash impairment of goodwill.

Trade and other payables increased by \$5.3m due to management of supplier payments more than offsetting seasonal increase from Xmas inventory build.

\$ million

1H FY17 **1H FY16**

Cash Flows From Operating Activities

EBITDA	6.3	7.7
Non cash items	(0.3)	0.7
EBITDA adjusted for non-cash items	6.0	8.4
Decrease / (increase) in trade and other receivables	(3.2)	(2.1)
Decrease / (increase) in inventory	(0.4)	(8.3)
Increase/ (Decrease) in trade and other payables	4.3	1.0
Increase/ (Decrease) in provisions	0.5	0.4
Operating cashflow excluding tax	7.2	(0.6)
Income taxes paid	(0.2)	(0.5)
Net cash provided / (used in) by operating activities	7.0	(1.1)

Cash Flows From Investing Activities

Payment for property, plant and equipment	(1.2)	(3.1)
Acquisition of intangible assets	(0.6)	(1.5)
Net cash used in investing activities	(1.7)	(4.6)

Cash Flows From Financing Activities

Payment of dividend	(1.6)	(6.2)
Interest and other costs of finance paid	(0.5)	(0.3)
Net cash used in financing activities	(2.0)	(6.6)

Net increase / (decrease) In cash held	3.2	(12.2)
Cash at the beginning of the period	1.4	13.8
Cash at the end of the period	4.7	1.6

Improvement in cashflow due to:

- Strong operating cashflow in 1HFY17 (\$7.0m vs (\$1.1m) pcp)
 - Management of supplier payments more than offsetting seasonal increase in inventory and debtors;
 - Improved inventory management vs pcp
- Controlled CAPEX spend
- Prudent dividend payment.

Trading Outlook

- ⑥ Franchise strategy expected to deliver in line with plan
 - a further 14 conversions planned for 2HFY17 supported by a strong pipeline.
- ⑥ Continued focus on key operational pillars – Product, Advertising and Training
- ⑥ Difficult trading conditions expected in 2HFY17 until gaps in the existing product range are filled and benefits of sales training take effect
 - New stick and barrel vac products for 2HFY17
- ⑥ Further inventory reductions from rationalisation of product range
- ⑥ Cash generation to pay down debt.
- ⑥ FY17 EBITDA forecast remains in the \$14 – 15m range.

Appendix A: Statutory to underlying reconciliation

Underlying Net Profit After Tax ('Underlying NPAT') is reported to provide shareholders additional information to enhance their understanding of the performance of Godfreys Group Limited. Underlying NPAT adjusts the Statutory NPAT for significant, one off items and changes in accounting policy, thereby facilitating a more representative comparison of financial performance between periods.

Half Year ending 30 December 2016	Note	Sales	EBITDA	EBIT	NPAT
\$'000					
Statutory results		92,365	6,259	(20,102)	(21,704)
<i>Adjusted for non-recurring items:</i>					
Impairment of goodwill and brand name	(1)	-	-	24,000	24,000
Business restructure costs	(2)	-	73	73	51
Underlying results		92,365	6,332	3,971	2,347

Half Year ending 25 December 2015	Note	Sales	EBITDA	EBIT	NPAT
\$'000					
Statutory results		89,892	7,710	5,717	3,632
<i>Adjusted for non-recurring items:</i>					
IPO retention bonuses paid to Key Management Personnel	(3)	-	649	649	649
Head office relocation costs	(4)	-	302	302	211
Underlying results		89,892	8,661	6,668	4,492

Note:

- 1) One-off non-cash impairment charge in respect of the carrying value of goodwill and Wertheim brand name of \$24.0m following a review of the recoverable amount these assets during the current period.
- 2) Costs incurred in relation to franchise restructure to rebalance the store network portfolio announced in October 2016.
- 3) Share Option expense for the period relating to options issued to Key Management Personnel following the IPO in 2014.
- 4) Relocation costs of head office to the new warehouse and office in Altona.

Appendix B: Impairment of Goodwill and other intangibles

- ⑥ Impairment charge of \$24.0m recognised in 1HFY17
 - ⑥ One off, non-cash adjustment
 - ⑥ Relates largely to historical goodwill, dating back to the 2006 acquisition of the Godfrey's business and various store acquisitions over a number of periods
 - ⑥ No impact on goodwill in relation to The Service Company acquisition
- ⑥ More conservative assumptions used in the impairment model, notably
 - ⑥ Full benefit of franchise strategy not included until committed
 - ⑥ Higher risk premium in discount rate
 - ⑥ More conservative growth rates, including terminal growth rate

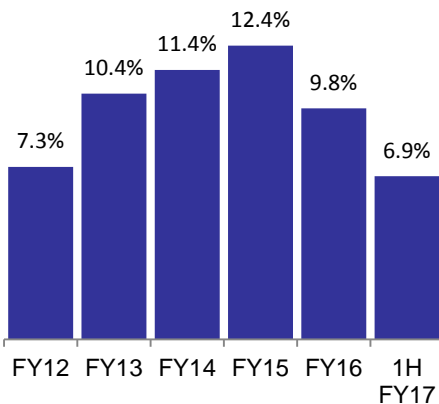
Appendix C: Profit and Loss by Country

\$ million	Underlying 1H FY16			Consolidated (A\$m)
	AUS (A\$m)	NZ (NZ\$m)	NZ (A\$m)	
Sales	74.6	18.7	17.8	92.4
Cost of sales	(35.8)	(10.1)	(9.6)	(45.4)
Operating gross profit	38.8	8.6	8.2	47.0
Other income	2.2	0.5	0.5	2.7
CODB	(35.7)	(8.0)	(7.6)	(43.3)
<i>CODB % of Sales</i>	<i>(47.8%)</i>	<i>(43.0%)</i>	<i>(43.0%)</i>	<i>(46.9%)</i>
EBITDA	5.3	1.0	1.0	6.3
<i>EBITDA margin</i>	<i>7.1%</i>	<i>5.6%</i>	<i>5.6%</i>	<i>6.8%</i>
Depreciation	(2.1)	(0.3)	(0.3)	(2.4)
EBIT	3.2	0.8	0.7	4.0
<i>EBIT margin</i>	<i>4.3%</i>	<i>4.1%</i>	<i>4.1%</i>	<i>4.3%</i>

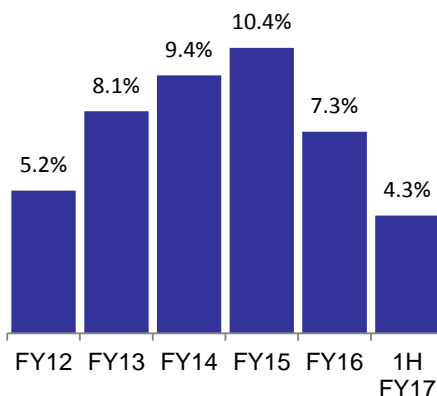
Sales growth	1H FY2017		FY2016	
	Total	Comps.	Total	Comps.
Australia	(4.3%)	(7.8%)	(2.8%)	(10.5%)
New Zealand (NZ\$)	48.9%	(1.4%)	10.6%	(5.7%)
Total	2.8%	(7.0%)	(0.9%)	(9.7%)

Appendix D: Historical trading performance

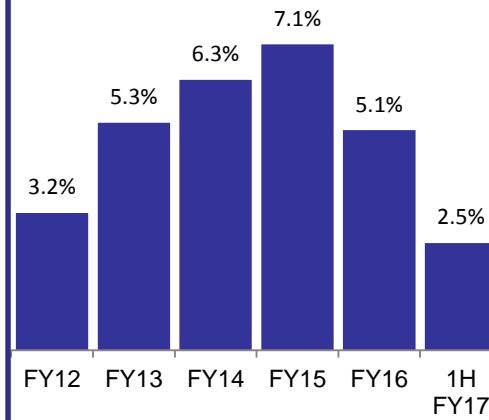
EBITDA margin



EBIT margin



NPAT margin



Appendix E: Retail Store Network

1H FY2017 stores movement

Net 1 stores opened (opened 4, closed 3)

- NSW: Tuggerah
- SA: Mile End
- NZ: Westgate, St. Lukes
- Closed: Brooklyn (VIC), New Market (QLD), Mosman Park (WA)

4 stores franchised

- VIC: Airport West
- NSW: Mittagong, Belrose
- NZ: Westgate

