Simonds Group

**24 August 2017**

## ASX ANNOUNCEMENT
## SIMONDS GROUP 2017 FINANCIAL YEAR RESULTS

Simonds Group Limited (**Simonds**, **Group** or **Company**) (ASX: SIO), one of Australia's leading homebuilders, is pleased to announce its financial results for the year ended 30 June 2017 (**FY17**).

**Financial results for the year ended 30 June 2017 from continuing operations:**

| | FY17 Statutory | FY17 Pro Forma[1] | FY16 Statutory | FY16 Pro-Forma[2] |
|---|---|---|---|---|
| **Revenue** | $587.4m | $587.4m | $628.5m | $628.5m |
| **EBITDA** | $10.1m | $13.8m | $4.4m | $15.1m |
| **NPAT** | $2.1m | $4.6m | $(2.2)m | $5.3m |

[1] FY17 Pro-forma results reflect adjustments for Significant Items as disclosed in Note 12 to the FY17 financial report.

[2] FY16 Pro-forma results reflect removal of the Discontinued Operations of the Madisson business and other adjustments for Significant Items as disclosed in Note 12 to the FY17 financial report, after which the Group's Statutory FY17 NPAT was $0.2m.

### FY17 overview

1. 2,391 homes constructed during the financial year;
2. Business reset and simplification is well underway:
   a) Ongoing focus on Simonds Homes Australia (**Homes**) core product portfolio, improving operating margins and condensing building locations
   b) Streamlining of the student enrolment and on-boarding processes in the Education business
3. Legacy issues continued to impact the performance of the Homes business, with long lead times to work through prior period building contracts
4. State Government funding contracts renewed in VIC, NSW, ACT and QLD with a Federal VET Student Loans contract granted for the Education business
5. Simonds Group revenue down 6.5%, with lower site starts in Homes and longer course duration in the Education business
6. Management initiatives and cost efficiency measures delivered a significant reduction in overheads across the Group in FY17 when compared with 2016 financial year (FY16)
7. No final dividend for FY17

Commenting on the FY17 Results, Simonds Group CEO and Managing Director Matthew Chun said, “The second half of the 2017 financial year (**2H17**) has seen the continued transformation of the Company, a journey which began at the start of the financial year. During the first half of FY17 (**1H17**) we defined the core purpose of the business, reset the strategy to shift the focus from volume growth to profitable, sustainable growth, streamlined the organisational structure and realigned remuneration to reflect the new Company strategy. In 2H17, we have built on these new foundations by developing new product in the Homes business, focusing on further improving our operating margins, core business processes and consolidating our building locations.

**Simonds Homes**

“With housing affordability high on the government’s agenda, and demand for quality homes in each of the regions where Simonds Homes has a presence, the market fundamentals in the residential homes sector remain strong. In FY17 the Homes business recorded 2,391 site starts which were impacted by continued delays experienced in the release of titled land, trade availability, wet weather and infrastructure delays.

“Our focus remains on executing against our new business rules and reducing changes to standard house designs which will drive improved margins in future periods. However, legacy contracts signed prior to the aforementioned changes to the business strategy in 1H17 will continue to impact margins in the short to medium term.

**Education business**

“Course enrolments and the number of graduated students were down on the last financial year as course durations were extended to improve course quality and the overall student experience. The Education business has continued to build a sustainable business platform, investing in the quality of course delivery materials.

“Increased audit and compliance costs were incurred by the business due to the pressures felt across the sector. All calendar 2016 audit activity has been concluded and all outstanding matters have been satisfactorily resolved with no adverse findings.

**Balance Sheet and Cash Flow**

The Group’s net assets at 30 June 2017 were negative $3.1 million, an improvement on the position at 31 December 2016 and marginally better than 30 June 2016.

The key balance sheet movements during FY17 were significant reductions in Trade Receivables as well as Trade and Other Payables. Receivables were $10.9 million lower and benefited from an increased focus on customer billing and collections. Trade and Other Payables reduced by $14.4 million.

Cash flow from operations were $8.8 million (excluding transaction costs incurred as a result of the proposed Scheme of Arrangement) and Cash / Cash Equivalents at 30 June 2017 were $10.2 million – a $7.0 million improvement on 30 June 2016. The Group’s net debt decreased by $3.1 million as a result of improved cash management activities and the release of display homes previously held on the balance sheet.

At 30 June 2017 the Group had drawn debt under its corporate finance facility arrangements with Commonwealth Bank of Australia of $8.3 million, with facility headroom available of $22.4 million. As at 24 August 2017 the unused facilities were $22.9 million.

**Dividends**

The Board of Simonds Group has determined that no final dividends will be paid in relation to the 2017 financial year.

**Outlook**

Mr Chun said, "The business has undertaken a significant turnaround during the 2017 financial year, with strong cash flows and reduced debt exposure and both the Homes and Education businesses have solid pipelines for the 2018 financial year (FY18) and beyond.

"Our focus remains on continuing to build a business that delivers sustainable profits. With our business review, strategy reset and organisational restructure now completed, the business transformation is underway. However, the inherent long lead time in seeing the benefits, and some remaining legacy contracts still to work through the system, we still have work to do to realise all of the benefits. Additional investment in marketing, displays homes and IT infrastructure is required to support our longer term strategy.

"Challenges remain in maintaining and growing market share in our core regions in the homes business and the operating environment for vocational education continues to evolve. Our clear business strategy and focus on improving operating margins will deliver a more robust and sustainable business model."

Simonds Group Annual General Meeting will be held in Melbourne on 24 November 2017.

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**Appendix 1: Statutory to Pro-forma Reconciliation**

| Statutory to pro forma reconciliation ($m) | FY17 Revenue | FY17 EBITDA | FY17 NPAT | FY16 Revenue | FY16 EBITDA | FY16 NPAT |
|---|---|---|---|---|---|---|
| **Statutory result from continuing operations** | **587.4** | **10.1** | **2.1** | **628.5** | **4.4** | **(2.2)** |
| Impairment of non-core development land and other current assets [1] | - | 1.4 | 1.0 | - | 1.7 | 1.2 |
| Transaction related costs [2] | - | 1.8 | 1.2 | - | - | - |
| Management restructure costs [3] | - | 0.5 | 0.3 | - | 2.6 | 1.8 |
| Impairment of IT Project | - | - | - | - | 3.7 | 2.6 |
| Accelerated impairment of display and speculative homes inventory | - | - | - | - | 2.7 | 1.9 |
| **Pro forma result** | **587.4** | **13.8** | **4.6** | **628.5** | **15.1** | **5.3** |

1. Impairment of non-core development land and other current assets comprises $0.6m impairment from legacy land holdings which form part of the Developments business. The residual $0.8m relates to the write down of current assets which form part of the Homes business.
2. On 31 August 2016, the Group announced a Scheme Implementation Agreement with SR Residential Pty Ltd ("SR Residential" or "Consortium") (which is jointly owned by entities associated with Roche Holdings Pty Ltd and Simonds Family Office Pty Ltd) under which it was proposed that SR Residential would acquire all shares in the Company not already owned by associates of the Consortium by way of the Scheme. On 28 November 2016, the Group announced that the Scheme Implementation Agreement has been terminated by mutual agreement of the Group and SR Residential. During this process, the Group incurred transaction costs of $1.817m for year ending 30 June 2017.
3. Management restructure costs relate to senior management changes which took place during the year.