Simonds Group

Simonds Group

Full year results presentation

For the twelve months ended 30 June 2017

24 August 2017

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Group Overview

The journey so far…

Simonds Group

1H17
1 Jul '16 – 31 Dec '16

- Strategy reset
- New organisational structure
- Reduce debt & cost control measures

2H17
1 Jan '17 – 30 Jun '17

- New product development
- Improve processes & business rules
- Building locations condensed

FY18 and beyond

- Business infrastructure investment
- Targeted growth
- Sustainable profits

Resetting the foundations and strengthening the business

02

Key Financials

Simonds Group key results

Resetting the business and strengthening the foundations

Key Financial Overview (Statutory)

Continuing:	FY17 ($m)	FY16 ($m)	Change
Revenue	587.4	628.5	↓ 6.5%
COGS	(461.4)	(496.8)	↓ 7.1%
Gross Margin	**125.9**	**131.7**	**↓ 4.4%**
	21.4%	*21.0%*	↑ 0.4%
Overheads	(112.1)	(116.6)	↓ 3.9%
EBITDA (before significant items)	**13.8**	**15.1**	**↓ 8.6%**
Significant items	(3.7)	(10.6)	↓ 65.1%
EBITDA	**10.1**	**4.5**	**↑ 124.4%**
Depreciation, amortisation and financing items	(6.7)	(7.7)	↓ 13.0%
Tax benefit / (expense)	(1.3)	1.0	↑ 230.0%
Net profit after tax from continuing operations	**2.1**	**(2.2)**	**↑ 195.5%**
Loss from Discontinued Operations[2]	**(1.9)**	**(12.7)**	↓ 85.0%
Profit / (loss) after tax	**0.2**	**(14.9)**	**↑ 101.3%**

Key Items

- Revenue impacted in the Homes business by wet weather, trade shortages, decrease in property investor activity, and changes to the first home buyers scheme
- Education business revenue decline driven by changes across the industry sector which have extended the period over which courses are delivered and revenues derived
- Substantial reduction of $11.4m in overheads and significant items[1]
- Significant items include impairment of non-core development land and other current assets ($1.4m), transaction related costs ($1.8m), and management restructure costs ($0.5m)
- Losses of $1.9m (after tax) from Discontinued Operations relate to costs incurred as part of rectification works undertaken for Madisson Projects within building warranty period

1. Refer to page 18 for additional information on significant items.
2. Following a comprehensive review instigated by the Directors on 16 November 2015, the Group announced a plan for the orderly closure of the Madisson business unit of the Group on 21 January 2016 upon completion of the remaining projects. All projects have been completed and this business has been disclosed as a Discontinued Operation for the year ended 30 June 2017.

Simonds Homes key results

Focus on improving margins, business simplification and efficiency

Key Financial Metrics[1]

$569.9m
Revenue
Down 5.1% on prior period

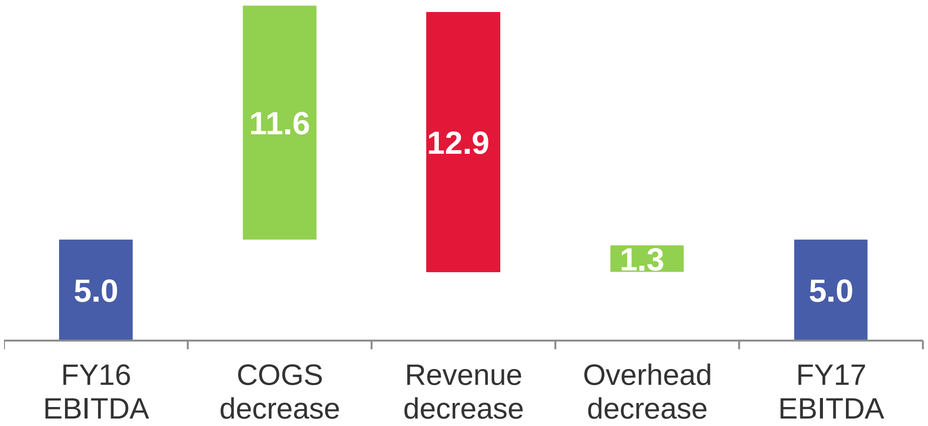
$12.0m
Pro forma[2] EBITDA
Unchanged from prior period

2,391
Site starts
Down from 2,513[3] in FY16

117
Total display homes
Down from 120 at 30 June 2016

- Construction delays due to wet weather and trade shortages
- Tightening in government and bank policies around investor lending have impacted property investor and offshore sales during the year
- Federal Government initiatives in 2H17 to assist first home owners have caused a number of customers to delay their contracts to FY18
- Delivery of an improved product offering to reduce changes to standard house designs will improve margins

FY17 pro forma EBITDA breakdown per house start ($'000s)



- Houses contracted post business efficiencies and additional business rules implemented during FY17 will begin to deliver margin growth in FY18 and beyond
- Despite a slight improvement in FY17 margins, profitability continues to be impacted by the long lead time on legacy sales contracts
- Overhead cost reduction realised from organisational restructure and efficiency initiatives

1. Excludes Madisson Projects as it is a discontinued operation.
2. Pro forma EBITDA is reported to give information to shareholders that provides a greater understanding of the underlying performance of Simonds Group Limited's operations, particularly in reference to non-recurring items. A pro forma to statutory reconciliation is included in the Appendix.
3. Restated to exclude non-retail site starts for consistency across comparative periods. FY16 site starts previously reported were 2,545. This number has been adjusted to exclude 32 speculative homes which are not constructed for retail customers.

Education key results

Building a sustainable platform for the future

Key Financial Metrics

$13.4m
Revenue
Down 29.7% on prior period

$1.3m
Pro forma[1] EBITDA
Down 68.0% on prior period

2,586
Course enrolments
Down from 3,283 at FY16[2]

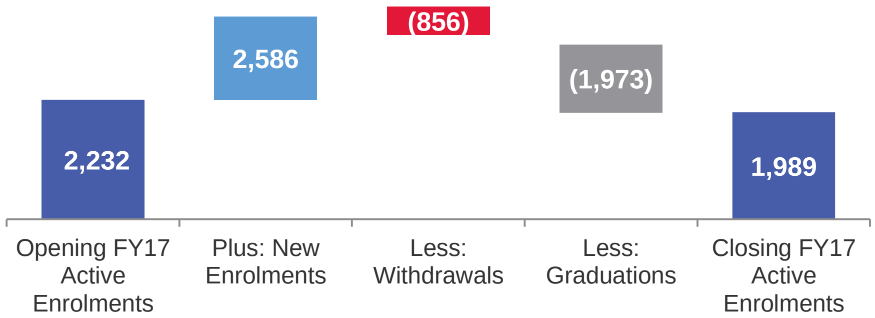
1,973
Graduated enrolments
Down from 3,306 in FY16

- State Government funding contracts renewed in VIC, NSW, ACT and QLD with a federal VET Student Loans contract granted
- Significant extension of course durations to improve student experience has impacted results and graduate numbers
- Continued investment in course delivery materials and student support strategies
- CY16 external audit activity concluded during FY17, with all outstanding matters satisfactorily closed

FY17 total course enrolments

Qualification	Physical	Virtual	Total
Certificate IV in Building & Construction (Building)	1,067	358	1,425
Diploma of Building & Construction (Building)	528	248	776
Certificate IV in Work Health and Safety	98	6	104
Diploma of Building and Construction (Mgt)	128	-	128
Other courses	129	24	153
Total	**1,950**	**636**	**2,586**

FY17 student profile



1. Pro forma EBITDA is reported to give information to shareholders that provides a greater understanding of the underlying performance of Simonds Group Limited's operations, particularly in reference to non-recurring items. A pro forma to statutory reconciliation is included in the Appendix.
2. In FY16 students more commonly enrolled in two qualifications from their initial enrolment, whereas in FY17 students more commonly enrolled into their second qualification only when near the completion of their first qualification.

Developments key results

Delivering a growth pipeline to complement the Homes business

Key Financial Metrics

$4.1m
Revenue
Down from $8.7m in FY16

$0.5m
Pro forma[1] EBITDA
Up from $(1.0)m in FY16

3
Current Projects
All underway in Victoria

74
Total lots
To be delivered in FY18

Project status overview

Direct holdings

1. Portland, Vic

30 lots with civil works completed in July 2016, sales and settlements likely to be consistent but slow over the next 12 months. 28 of 30 lots remain unsold.

Indirect holding

Minority holding (20%) in dedicated Simonds Land Fund Syndicate, consisting of two seed sites:

1. Mernda, Vic
34 lots with planning approval plus a childcare site. Civil works underway with settlements expected in 1H18. The project is 91% sold.

2. Officer, Vic
40 lots with planning approval. Expected completion and settlement in FY18. 75% of lots are reserved/sold. Civil works contractor has been awarded and civil works has commenced.

1. Pro forma EBITDA is reported to give information to shareholders that provides a greater understanding of the underlying performance of Simonds Group Limited's operations, particularly in reference to non-recurring items. A pro forma to statutory reconciliation is included in the Appendix.

Balance Sheet

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Focus continues on strengthening the Balance Sheet

Balance Sheet ($m)	30 Jun '17	30 Jun '16
Assets		
Cash / Equivalents	10.2	3.2
Receivables	32.7	43.6
Inventories	48.2	49.6
PP&E	7.9	9.8
Other	17.4	17.5
Total Assets	**116.4**	**123.7**
Liabilities		
Trade / other payables	61.2	75.6
Debt	15.2	11.3
Provisions	20.9	21.5
Other	22.2	18.6
Total Liabilities	**119.5**	**127.0**
Net Assets	**(3.1)**	**(3.3)**

Key Items

- Receivables significantly reduced as a result of increased focus on collection of outstanding amounts owing
- Other assets which comprise tax receivable, other assets, investments, deferred tax assets and intangible assets has remained the same with a decrease ($2.7m) in tax receivable offset by an increase in intangible assets ($0.9m) and deferred tax ($1.9m)
- Trade / other payables has decreased due to shift in timing of key supplier payments
- Debt net of cash / equivalents reduced by $3.1m primarily driven by improvements in working capital
- Undrawn facilities as at 30 Jun '17 of $22.4m
- Movement in other liabilities which comprise deferred revenue ($1.3m) and deferred tax liabilities ($2.3m)
- Net asset position negatively impacted by significant items and additional provision for discontinued operations
- Improved cost and capital expenditure controls and return to profitability will significantly improve net asset position in the short term

Cashflows

Simonds Group

Improving cashflow a key focus

Summary cash flows ($m)	FY17	FY16
Cash flows from operating activities		
Receipts from customers	604.5	664.0
Payments to suppliers / employees	(596.6)	(637.7)
Transaction costs (Scheme of Arrangement)	(1.8)	-
Interest paid	(1.7)	(2.2)
Income taxes refunded / (paid)	2.6	(9.2)
Net cash generated from operating activities	**7.0**	**14.9**
Net cash from investing activities	**(2.6)**	**(7.3)**
Net cash from financing activities	**2.6**	**(9.9)**
Net increase / (decrease) in cash	7.0	(2.3)
Cash / Equivalents at end of the period	**10.2**	**3.2**

Key Items

- Customer receipts have been impacted by the change from ‘Method 2’ invoicing to ‘Method 1’ invoicing. The effect of this one off change is to reduce the amount billable to customers at earlier stages of the construction process, and is not anticipated to impact future cash flows
- Receipts from customers and payment to suppliers impacted by construction delays experienced during FY17 due to wet weather and trade shortages
- Payments to suppliers and employees impacted by reduction in Cost of Goods Sold and overhead savings
- FY17 has been impacted by transaction costs associated with the Scheme of Arrangement of $1.8m
- Lower tax payments resulting from FY16 result
- Cash invested in FY17 in new SA Gallery, product development and course materials. FY16 outflows to acquire RTO in QLD/NSW (City-Wide Building & Training Services) and investment in IT projects
- Group borrowings benefited from improved cash management in comparison with FY16, and no payment of dividends or share buyback in FY17

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FY18 Outlook

State overview

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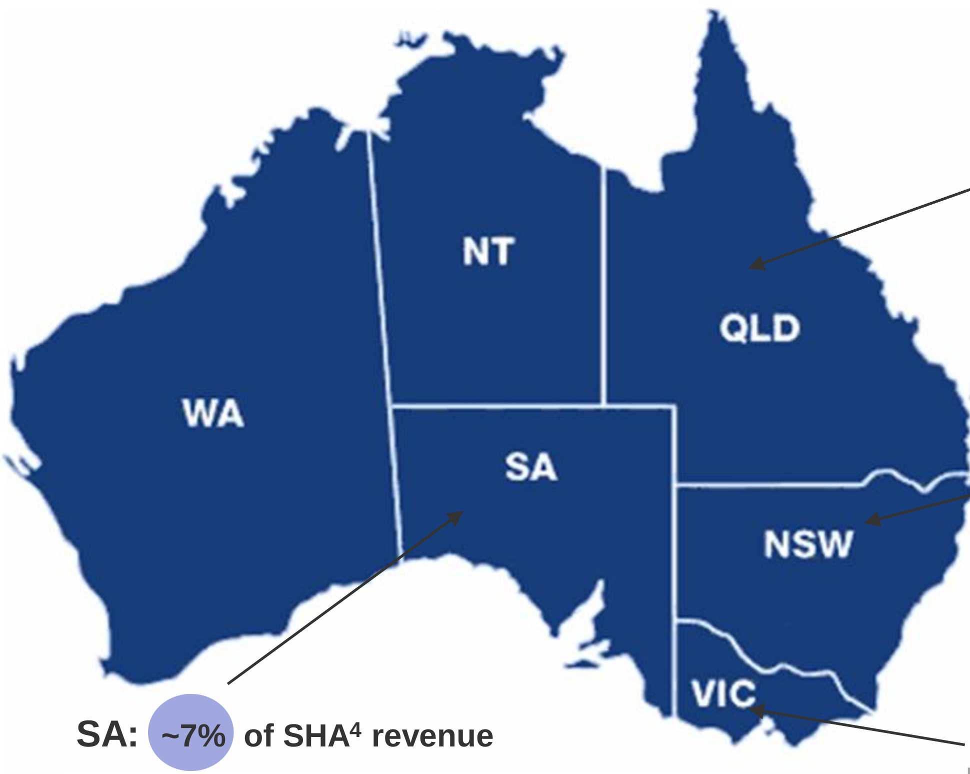
Strong external factors in all markets with opportunities for growth



QLD: ~11% of SHA[4] revenue

Population growth 2006-16[1]	↑ 840,885
Private Sector Houses Approved 2016/17[2]	23,650
Unemployment[3]	6.5%

NSW: ~5% of SHA[4] revenue

Population growth 2006-16[1]	↑ 996,584
Private Sector Houses Approved 2016/17[2]	28,555
Unemployment[3]	5.3%

SA: ~7% of SHA[4] revenue

Population growth 2006-16[1]	↑ 160,525
Private Sector Houses Approved 2016/17[2]	7,619
Unemployment[3]	7.0%

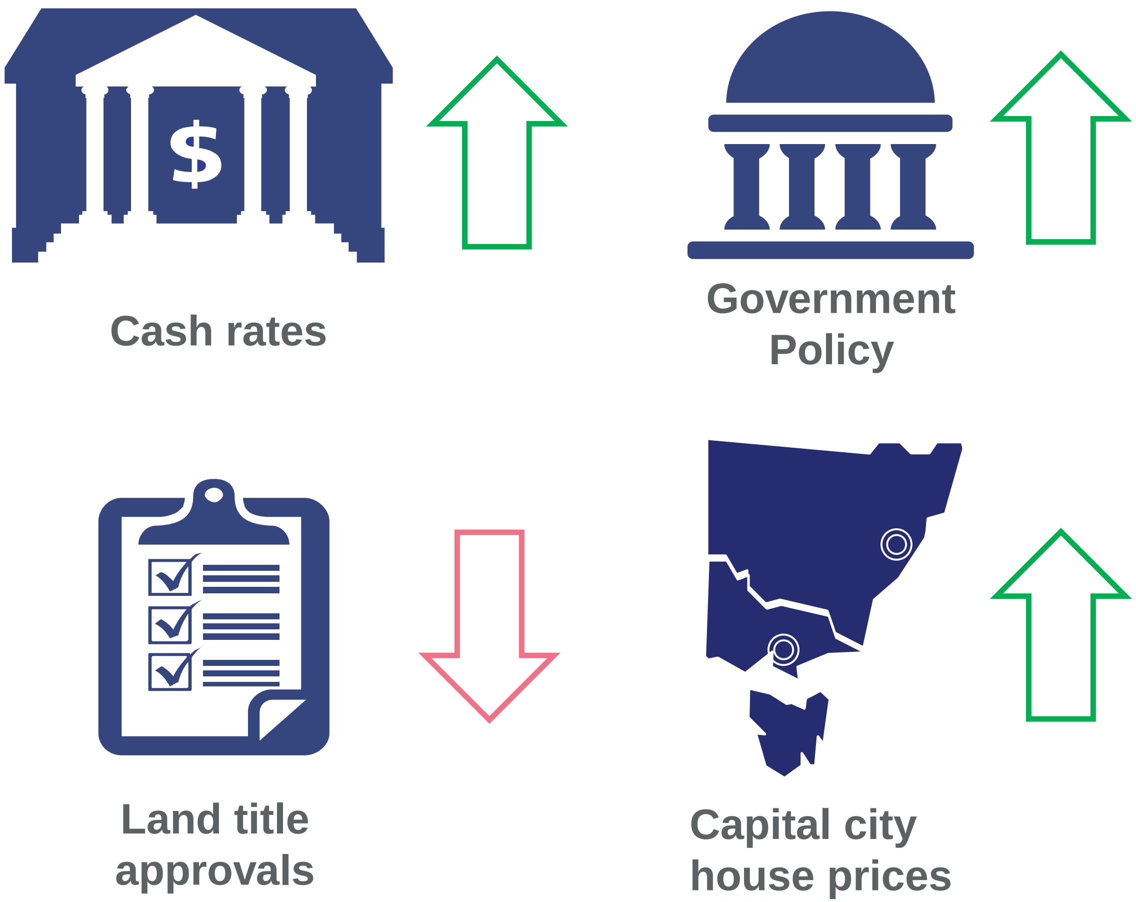
VIC: ~77% of SHA[4] revenue

Population growth 2006-16[1]	↑ 1,117,983
Private Sector Houses Approved 2016/17[2]	35,739
Unemployment[3]	5.7%

1. Australian Bureau of Statistics, 3218.0 Regional Population Growth, Australia, 2016.
2. Australian Bureau of Statistics, 8731.0 Building Approvals Australia.
3. Australian Bureau of Statistics, 6202.0 Labour Force, Australia, June 2016.
4. Simonds Homes Australia (Homes or SHA).

Economic and external factors

General economic conditions and external factors remain largely positive



- The majority of uncontrollable external factors remain positive, excluding land title approvals
- Cash rate currently at record low levels
- Recent Government initiatives have been implemented to improve housing affordability
- Delays in the land titling process have resulted in an estimated 12 – 18 month time lag from when the building contract is signed to when the revenue is generated
- Strong capital city house prices act as an incentive to build your own home as opposed to purchasing an already established home which attracts additional Stamp Duty costs

Represents positive condition from Simonds Group perspective.

Represents negative condition from Simonds Group perspective.

Homes business product offering

Simonds Group

The right product mix to capitalise on the market and customer needs

SIMONDS
BUILDING HOMES SINCE 1949

- Our largest selling range of homes (includes Living and Fusion range)
- Offered across all states and represents the largest portion of SHA revenue
- Product targeted at first / second home buyers, typically families
- Average selling price of $230k – $300k

SIMONDS EXPRESS

- Introduced in 2013, targeted at the budget conscious first home buyers and investors
- This home can be built within 18 weeks
- Represents a significant portion of the Simonds product offering and is available in Victoria only
- Average selling price of $180k - $210k

MASTERPIECE

- Designed specifically for the inner suburbs, offering knock down and rebuild solutions
- Typically double story homes targeted at third / fourth home buyers and dual occupancy homes targeted at investors / owner occupiers
- Average selling price of $400k - $550k

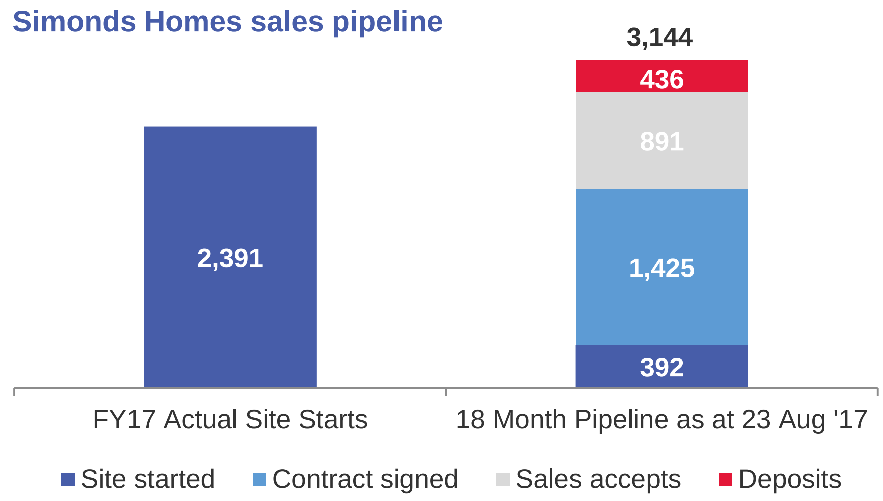
precinct BY SIMONDS

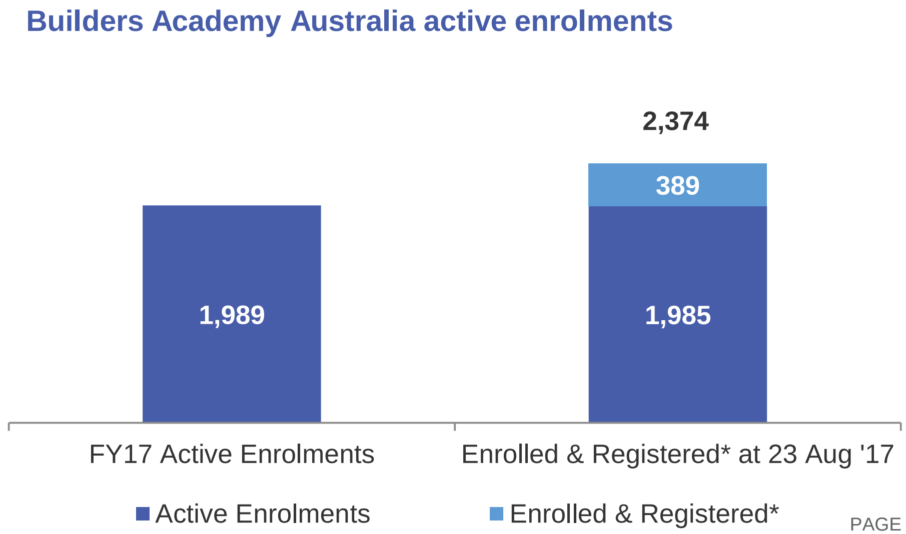
- Precinct by Simonds is designed to provide quality affordable homes on green field estates across Victoria
- Comprises small lot housing solutions and medium density, primarily purchased by first home buyers and investors
- Average selling price of $160k - $250k

FY18 outlook

Strengthening of the business foundations to continue in the short term

- Underlying fundamentals look positive for sustainable growth:
  - Strong population growth
  - Introduction of government initiatives to support first home buyers
  - Diversified product portfolio
- Margin growth will take 12 - 18 months to be realised:
  - Focus remains on reducing customisation of house designs to improve margins
  - Average time taken to complete construction has increased over the past two years due to extended approvals and titling periods
  - Additional investment in marketing, displays and IT infrastructure required
- Strong pipeline in both the Homes and Education businesses





* Registered students are those who are registered to start future courses but have not yet enrolled.

Looking to the future...

Simonds Group

Strengthening of the business foundations to continue in the short term with benefits to be realised in the future

FY18

New product rollout

Customer journey improvements

Business and Capital investment

FY19

Increased display footprint

Gross margin improvement

Increased focus on innovation

FY20

Increase site starts

Greater market share

Investing in the future to drive margin improvement and market share

APPENDIX
Statutory to pro forma reconciliation

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.

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Thank you