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# ASX ANNOUNCEMENT
# SIMONDS GROUP 2020 FINANCIAL YEAR RESULTS

Simonds Group Limited (Simonds, Group or Company) (ASX: SIO), one of Australia's leading homebuilders, has today released its Appendix 4E Financial Report for the financial year ended 30 June 2020 (FY20).

Simonds earned a net profit after tax (NPAT) of $7.1 million from continuing operations.

**Results for the financial year ended 30 June 2020:**

| | FY20 $ million | FY19 $ million |
|---|---|---|
| **Revenue** | $664.8 | $687.7 |
| **Earnings before interest, depreciation and amortisation (EBITDA)**[1] | $31.5 | $23.2 |
| **Net Profit After Tax (NPAT) from continuing operations** | $7.1 | $11.7 |

## FY20 HIGHLIGHTS

- Net cashflows of $18.6 million after repaying the $5.0 million Display Fund facility,
- No net debt as at 30 June 2020 (FY19: net debt $1.2 million).
- Balance sheet strengthened, with the Group's net asset position improving from $11.4 million as at 30 June 2019 to $17.3 million as at 30 June 2020.
- 2,395 site starts (FY19: 2,580).
- Revenue of $664.8 million (FY19: $687.7 million) 3.3% less due to lower site starts and product mix.
- EBITDA of $31.5 million (FY19: $23.2 million) was $8.3 million higher due to the new leasing standard wherein FY20 lease expenses totalling $14.1 million is now recorded as depreciation and interest expense.
- NPAT of $7.1 million (FY19: $11.7 million) $4.6 million less due to lower site starts and investment in existing and new sales channels.

## FY20 OVERVIEW

**Commenting on the Group results, Joint CEO and Managing Director Kelvin Ryan said:**

> *"In a very challenging year the Group generated positive cashflows and further strengthened the balance sheet. We remained focussed on improving and delivering sustainable operating performance through cost efficiency, increasing sales through displays, and investing in new sales channels to market.*
>
> *The significant downturn in the market, which started in early 2019, was further exacerbated by more restrictive lending conditions and flowed through to impact our FY20 starts.*
>
> *The market was showing signs of recovery in early 2020 but the burgeoning COVID-19 pandemic and national lockdown in March impacted our business during April and May. Like many other businesses, we were able to quickly adapt and respond to working safely and efficiently within the restrictions currently in place."*

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[1] FY20 EBITDA now does not include lease expenses which totalled $14.1 million. AASB16 now requires leases to be capitalised as an asset meaning the $14.1m expense which would have previously reduced EBITDA is now reported within Depreciation & Amortisation (D&A) and Interest expense thus resulting in a higher EBITDA figure. Refer to appendix for further information on this change in accounting treatment.

## GROUP FINANCIAL RESULTS REPORTED FOR FY20

EBITDA for the Group increased $8.3 million (+35.8%) on FY19 despite the lower site starts. This was largely due to the impact of the new lease Accounting Standard which requires lease expense previously recorded within EBITDA to be accounted for as depreciation and interest expense.

Net cash flows for the Group of $18.6 million, an increase of $15.9 million on FY19, were due to the positive operating results, supply chain support and efficiencies and strong working capital management.

The key balance sheet movements during FY20 were:

- The Group's net assets rose from $11.4 million at 30 June 2019 to $17.3 million at 30 June 2020 reflecting the positive earnings contribution, the continued strong focus on cash controls and working capital management
- Cash and cash equivalents increased by $18.6 million and the Group had headroom under its CBA facilities of $54.7 million at 30 June 2020
- Trade receivables and accrued revenue associated with work in progress decreased by $17.4 million whilst trade and other payables increased by $2.5 million, predominantly due to movements in site starts and seasonality
- Inventories, which include display homes under construction and available for sale as well as land holdings, decreased by $1.3 million
- Intangible assets increased by $2.4 million reflecting the investment in computer software and systems, as well as the cost of developing new and innovative products and training course materials, and
- Right-of-use assets, which relate to leasing of commercial offices, display homes and display home furniture, and motor vehicles, were recognised on the balance sheet in accordance with the new lease accounting standard resulting in an increase in assets of $22.7 million and the related lease liabilities of $22.6 million.

## SIMONDS HOMES

**Key Metrics**

| | FY20<br>$ million | FY19<br>$ million | Change |
|---|---|---|---|
| **Site starts**[1] | 2,395 | 2,580 | -7.2% |
| **Revenue** | $652.6 | $676.9 | -3.6% |
| **EBITDA**[2] | $28.8 | $21.8 | +32.1% |
| **Total display homes** | 115 | 117 | -2 displays |

Revenue and earnings in the Simonds Homes business were impacted by the flow on effect of subdued market conditions in 2019 associated with a restricted lending environment and the challenges presented by the COVID-19 pandemic. There were 185 less site starts than last year a 7% decline on FY19, compared to industry[3] forecasts of a decline of 10 to 13% in FY20.

EBITDA for Simonds Homes increased $7.0 million (32.1%) on FY19 largely due to the impact of the new lease Accounting Standard. The exclusion of lease expense ($14.0 million) from EBITDA offset the impact of lower site starts.

## BUILDERS ACADEMY AUSTRALIA (BAA)

**Key Metrics**

| | FY20<br>$ million | FY19<br>$ million | Change |
|---|---|---|---|
| **Revenue** | $11.9m | $10.2m | +16.7% |
| **EBITDA**[4] | $2.4m | $1.2m | +100.0% |

[1] Excludes any display or speculative home starts

[2] SHA EBITDA excludes the impact of leases capitalised in accordance with the requirements of AASB 16, resulting in $14.0m previously presented within EBITDA reported within D&A and Interest expense

[3] Forecast decline in new, detached home approvals across the states Simonds operates in (Victoria, NSW, Queensland and South Australia) by HIA and BIS-Shrapnel

[4] BAA EBITDA excludes the impact of leases capitalised in accordance with the requirements of AASB 16, resulting in $0.1m previously presented within EBITDA reported within D&A and Interest expense.

Revenue received by the BAA business increased $1.7 million (+16.7%) on FY19 with 2,479 enrolments, 649 higher (35.5%) than for the prior comparative period, and with students studying under apprenticeship and traineeships doubling during the period.

BAA retained its existing State Government and Federal Government funding contracts, received approval to deliver 3 courses to international students under CRICOS (Commonwealth Register of Institutions and Courses for Overseas Students) and has extended the range of qualifications it is able to deliver.

**OUTLOOK AND FUTURE DEVELOPMENTS**

During FY20 the Group invested in developing and bringing to market new sales channels which are expected to deliver increased revenue and cashflows in FY21 and beyond.

The COVID-19 pandemic continues to impact our business in FY21. On 3 August 2020, the Premier of Victoria announced Stage 4 Restrictions for metropolitan Melbourne to apply at least until 13 September 2020. The Stage 4 Restrictions increase the construction time to build homes and reduce visits to display homes. Management have taken a range of mitigating actions to reduce the impact of the restrictions.

The economic uncertainty in the wake of the COVID-19 pandemic and the inherent difficulty in predicting the speed and timing of any recovery make any forward-looking statement impossible. Notwithstanding our industry and the Simonds brand has shown great resilience through these challenging and unprecedented times. We remain vigilant and are prepared to respond to the recovery when it happens.

**DIVIDENDS**

The Directors have determined that notwithstanding the strong operational cash flow and strengthening of the balance sheet, the uncertainty created by the COVID-19 pandemic is such that no dividend will be declared in relation to the year ended 30 June 2020.

- ENDS -

For more information, please contact:


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|---|---|
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Authorised for lodgement by the Simonds Group Limited Board of Directors.

## Appendix: Disclosure of AASB 16 Leases impact:

| Continuing operations: $m | Post AASB 16 30 Jun 2020 | AASB 16 Impact | Pre AASB 16 30 Jun 2020 | 30 Jun 2019 | Movement | % change |
|---|---|---|---|---|---|---|
| **Revenue** | 664.8 | - | 664.8 | 687.7 | (22.9) | (3%) |
| Expenses[1] | (122.5) | (14.1) | (136.6) | (130.8) | (5.8) | 4% |
| **EBITDA** | **31.5** | **(14.1)** | **17.4** | **23.2** | (5.8) | (25%) |
| Depreciation and amortisation charges[2] | (19.1) | 13.2 | (5.9) | (4.7) | (1.2) | 26% |
| **Net Profit Before Interest & Tax** | **12.4** | **(0.9)** | **11.5** | **18.5** | (7.0) | (38%) |
| Interest expense[3] | (1.5) | 0.8 | (0.7) | (1.3) | 0.6 | (46%) |
| **Profit before Tax** | **10.9** | **(0.1)** | **10.8** | **17.2** | (6.4) | (37%) |
| Tax expense | (3.8) | 0.0 | (3.8) | (5.5) | 1.7 | (31%) |
| **Net Profit After Tax (NPAT)** | **7.1** | **(0.1)** | **7.0** | **11.7** | (4.7) | (40%) |
| Earnings per share (Basic cents) | 4.95 | (0.10) | 4.89 | 8.16 | (3.27) | (40%) |
| **Net tangible assets[4]** | **8.4** | **(0.1)** | **8.4** | **5.0** | 3.4 | 68% |
| Net tangible assets per share (cents) | 5.8 | - | 5.8 | 3.5 | 2.4 | 68% |
| Cash flows from operating activities[5] | 49.0 | (14.1) | 34.9 | 6.0 | 28.9 | 482% |
| Cash flows from financing activities | (21.8) | 14.1 | (7.7) | 0.2 | (7.9) | (3950%) |
| Cash flows from investing activities | (8.6) | | (8.6) | (3.5) | (5.1) | 146% |
| **Net cash flows** | **18.6** | **-** | **18.6** | **2.7** | 15.9 | 589% |

1. Expenses impacted by AASB 16 as payments for leasing of commercial offices, display homes, display home furniture and motor vehicles are no longer reflected in EBITDA.

2. Straight-line depreciation of the right-of-use assets over life of leases mentioned above, commencing from 1 July 2019.

3. Lease payments are discounted using incremental borrowing rate at AASB 16 transition date (1 July 2019) and rate implicit in the lease for leases commenced or renewed after 1 July 2019.

4. Net tangible assets (NTA) have been impacted by the recognition of $22.7m right-of-use assets and $22.6m lease liability, which has also impacted the calculation of NTA per share.

5. Cash flows from operating activities have been impacted by lease payments previously reported in cash flows from operating activities now reported in cash flows from financing activities.