

25 February 2016

## ASX ANNOUNCEMENT

### SIMONDS GROUP 2016 INTERIM RESULTS

Simonds Group Limited (ASX: SIO) is pleased to announce its financial results for the 6 months ended 31 December 2015 (1H16) delivering a Net Loss after Tax of \$2.2m, within the guidance range provided in the market update announcement on 21 January 2016. On pro-forma<sup>1</sup> basis Simonds delivered a Net Profit after Tax of \$4.4m.

#### Financial results for the 6 months ended 31 December 2015

	1H16 Statutory	1H16 Pro-Forma
<b>Revenue</b>	\$318.2m	\$294.3m
<b>EBITDA</b>	\$(0.4)m	\$8.9m
<b>Net Profit (Loss) after Tax</b>	\$(2.2)m	\$4.4m

#### Key Metrics

	31 Dec 2015	31 Dec 2014	Change %
<b><i>Simonds Homes Australia</i></b>			
Site Starts for the 6 months	1,252	1,217	2.9
Display Homes Open	112	105	6.7
Sales Pipeline as at 31 Dec '15 (Contracts, Sales Accepts, Deposits)	2,727	1,979	41.4
<b><i>Builders Academy Australia</i></b>			
Graduates for the 6 months	1,966	702	180.0
Course Enrolments for the 6 months	1,855	1,968	(5.7)
<b><i>Discover Developments</i></b> <sup>2</sup>			
No. Projects Established	3	-	N/a
Forecast Land Lots	106	-	N/a

<sup>1</sup> The Pro-Forma result excludes the financial impacts of the Madison Projects division and IPO share based payments. A statutory to pro-forma reconciliation is provided as Appendix One

<sup>2</sup> SIO undertakes Discover Developments projects in its own right, with joint venture partners or through land syndicates. Accordingly SIO does not own 100% of all forecast land lots in these projects.

### **1H16 Highlights**

- Simonds Group revenue growth of 6.7%, with growth across both Simonds Homes Australia (SHA) and Builders Academy Australia (BAA)
- SHA east coast & South Australia growth strategy being executed
- BAA continues to build sustainable business model supported by quality training, compliance and student engagement with 17 new courses released in 1H16
- Discover Developments #1 syndicate fully funded
- New Simonds Group CEO Matthew Chun appointed and commencing on 1<sup>st</sup> April 2016
- Orderly closure of the loss-making, low-margin high-density Madisson Projects business
- Shares representing approximately 5% of Simonds Group's issued capital purchased via on-market share buy-back completed during 1H16

Commenting on the 1H16 results, Simonds Group's Acting CEO Robert Stubbs said "The results for the 6 months to 31 December 2015 were impacted by a number of factors affecting both the Simonds Homes and Builders Academy Australia businesses, but most notably by the performance of the Madisson Projects division which is now in the process of an orderly closure. With these factors now largely behind us, the Company expects a material improvement in the second half of FY2016.

"It was very encouraging that despite the market challenges during the period both Simonds Homes Australia and Builders Academy Australia continued to grow revenue, with record home site starts and solid course enrolments.

"Simonds Homes Australia's stated expansion plans in Queensland, NSW, and South Australia is driving revenue growth with a 112 display homes open with a strong emphasis on these regions.

"However, the increased costs associated with this expansion, some delays in display home openings and increased competitive activity have had an adverse effect on profitability during the first half. In addition, the deferral in some titled land in metro and country Victoria have reduced the growth in site starts.

"Builders Academy Australia has continued to grow course offering and invest heavily in course quality, systems and compliance. This continued re-investment in a sustainable business model within the currently regulatory framework has realised softer than expected profitability in this period. However, course registrations in the first 6 weeks of calendar 2016 have been very strong with over 1,100 new course enrolments since 1 January 2016.

"Despite the lower than expected earnings during the first half, the Board of Simonds Group remains confident in the outlook for the core operating business segments of residential volume building and the Vocational Education Training ("VET") sector.

### **Simonds Homes Australia (SHA)**

- **Pro-Forma Revenue of \$281.7 – up 9.1% from 1H15**
- **Pro-Forma EBITDA result of \$5.7m – down 50.2% from 1H15**
- **Record site starts of 1,252**
- **Revenue Vic up 3.7%**
- **Revenue Qld, NSW, SA up 66.5%**

SHA pro-forma revenue (excluding the Madisson Projects division) grew strongly during the period, up 9.1%. Revenue increased in all states with home site starts up 2.9% nationally. Revenue was impacted by some deferred site starts as a result of land titling delays in our Victorian business. The majority of land titling delays have now been resolved and strong site starts are expected in 2H16.

Gross margin pressures associated with strong competitive activity in Victoria negatively impacted overall profitability, however price increases implemented in the half will begin to flow through during 2H16. In addition, operating margins during the first half were reduced as a result of the increased costs in relation to SHA's expansion into Queensland and New South Wales. The margin impact from increased costs of expansion will moderate over the next 12 months as SHA's scale builds in support of the increased footprint.

Currently, SHA is operating on lower overall margins in Queensland and NSW compared to the rest of Australia. Both states are operating profitably with strong new sales supporting a growing brand equity. Both states remain extremely attractive in respect to SHA's growth aspirations on the east coast.

A core part of SHA's growth strategy is increasing the display homes footprint, particularly in the expansion markets of Queensland, NSW and South Australia where SHA had only 14 display homes at the commencement of FY2016. An additional 12 display homes were completed in these expansion states bringing the total across Australia to 112 at 31 December 2015. SHA expects to open a further 13 display homes prior to 30 June 2016.

SHA continues to operate with a substantial sales pipeline of over 2,727 sales compared to 1,979 at 1H15. This is underpinned by expanding retail presence through increased displays across Queensland, New South Wales and South Australia and continued market leading position in Victoria.

### **Builders Academy Australia (BAA)**

- **Revenue of \$11.6m – up 6.2% from 1H15**
- **EBITDA result of \$4.0m – down 20.6% from 1H15**
- **1,855 course enrolments in 1H16**

BAA revenue grew 6.2% during the 1H16 driven by the number of course enrolments, including 17 new courses and geographic expansion in Queensland and New South Wales.

However, continued delivery of quality training outcomes through course design, further investment in compliance and student engagement has impacted overall margin and profitability in 1H16.

The market environment within the VET sector has been challenging with an industry 'correction' currently underway. The rationalisation of VET providers is welcomed and provides opportunities for BAA as it continues its investment in quality training, compliance and student engagement.

BAA believes that its sustainable business model will withstand the potential future reforms in the sector; particularly in BAA's core focus of the skills shortage area of building & construction.

### **Discover Developments**

The Simonds land development division, Discover Developments, has continued to expand with the first Simonds Land Syndicate fully subscribed. This division focuses on small-scale land development sites that complement the Simonds Homes building and construction activity in both outer-metropolitan and regional areas. Simonds identifies development sites through strong relationships and earns both sales and development project fee income.

Discover Developments stated aim is to support up to 10% of Simonds Homes' annual site starts and currently has 3 projects at different stages of development representing ~106 lots. In support of the Group's capital light balance sheet model, the majority of these projects are undertaken with joint venture partners or through land syndicates but project managed by Simonds.

### **Gemmill Homes**

As outlined in the ASX announcement of 16 November 2015, SIO entered into a Call Option to acquire 100% of Gemmill Homes Group Pty Ltd, a Perth-based homebuilder.

The Call Option could be exercised by SIO at its sole discretion until 31 July 2016.

After 3 months of due diligence, the Board has determined that SIO will not exercise the Call Option and consequently will not acquire Gemmill Homes. The Board has reaffirmed its strategy of continued expansion in Queensland, New South Wales and South Australia building on its market leading position in Victoria, and this remains the company's priority in the short to medium-term.

### **Capital Light Balance Sheet**

Simonds Group has debt increasing to \$14.1m at 31 December 2015 driven primarily by the additional investment in display homes and the \$7.9m on-market share buy-back completed in November 2015.

Simonds Group maintained its capital-light business model and at 31 December 2015, the Group had unutilised bank facilities totalling \$18.6m and was fully compliant with all financial covenants.

### **On-market share buy-back**

Simonds Group completed an on-market share buy-back of 7,570,613 shares during the period representing approximately 5% of the Company's issued capital. Total shares on issue post the buy-back are 143,841,655.

### **Future outlook underpinned by strong sales pipelines and market demand**

#### ***Simonds Homes Australia***

Simonds Homes is well positioned to deliver sustainable growth into 2H16 and FY17 with a solid sales pipeline.

For FY16, Simonds is forecasting 2,700 site starts based on:

Already site started	1,252
Contract Signed	1,242
Sales Accepted (pending contract)	375
Deposits held	<u>90</u>
	<u>2,959</u>

In addition, Simonds also holds 1,020 sales scheduled for site starting in FY17.

The growth in sales pipeline is driven by market share gains in Queensland and South Australia, and our expanding retail presence in New South Wales. Simonds Victoria also continues its market-leading position and expansion into regional areas.

#### ***Builders Academy Australia***

Whilst the reforms in the VET sector have been well documented, Builders Academy Australia has utilised these changes to continue its stated strategy of building a strong sustainable business underpinned by quality training, solid compliance and high levels of student engagement.

Importantly, BAA's completion rates comfortably exceed the Victorian state average in our three primary courses.

Combined with the VET FEE-HELP provider approval granted in December 2015, this strategy continues to put BAA in an enviable position to take advantage of opportunities as they arise across Victoria, New South Wales and Queensland.

- ENDS -

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### **About Simonds Group (ASX code SIO)**

Simonds Group Limited is an ASX listed integrated homebuilder (Simonds Homes) and Registered Training Organisation (Builders Academy Australia).

Simonds Homes is the number one residential homebuilder in Victoria and one of Australia's largest volume builders with operations in Victoria, New South Wales, Queensland and South Australia.

Builders Academy Australia is a Registered Training Organisation with a focus on offering nationally accredited qualifications in building and construction. Established more than ten years ago, Builders Academy Australia offers training programs across Victoria, New South Wales and Queensland.

Embedded within one of Australia's leading home builders, Builders Academy Australia truly is 'builders training builders', offering a clear career upskilling and employment pathway for course participants.

## Appendix One: Statutory to Pro Forma Reconciliation

### Statutory to Pro Forma Reconciliation

Statutory reconciliation (\$m)	1H16 Revenue	1H16 EBITDA	1H16 NPAT	1H15 Revenue	1H15 EBITDA	1H15 NPAT
<b>Statutory result (1)</b>	<b>318.2</b>	<b>(0.4)</b>	<b>(2.2)</b>	<b>299.2</b>	<b>(17.1)</b>	<b>(22.3)</b>
IPO Share-based Payments (non-cash) (2)	-	-	-	-	(28.2)	(28.2)
IPO Restructure / Non-recurring costs	-	(0.1)	(0.1)	-	(4.7)	(3.2)
Madisson Projects division (3)	(23.9)	(9.2)	(6.5)	(23.4)	(0.8)	(0.7)
<b>Pro forma result</b>	<b>294.3</b>	<b>8.9</b>	<b>4.4</b>	<b>275.8</b>	<b>16.6</b>	<b>9.9</b>

1. Statutory result for 1H15 has been restated to reflect adjustment to IPO share based payments. Net impact of \$1.4m to statutory profit with nil impact to pro forma result.
2. Non-cash IPO share-based payments. No cash impact on Group.
3. ASX Announcement 25 Jan '16 confirming orderly closure of Madisson Projects division