



NZX/ASX release

18 February 2016

MANAGEMENT DISCUSSION & ANALYSIS FOR INTERIM FINANCIAL RESULTS FOR THE 2016 FINANCIAL YEAR

Non-GAAP financial measures

Nuplex results are prepared in accordance with NZ GAAP and comply with NZ IFRS. This Management Discussion & Analysis includes non-GAAP financial measures which are not defined in NZ IFRS. The non-GAAP financial measures used in this presentation include operating EBITDA, net profit, significant items, ROFE, EBIT, gearing, funds employed, operating and fixed costs, capital expenditure and net debt.

Nuplex believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Nuplex, but they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP financial measures as reported by Nuplex may not be comparable to similarly titled amounts reported by other companies.

FINANCIAL OVERVIEW

PROFIT & LOSS

Net profit after tax (NPAT)¹ was \$24.9 million.

This includes \$2.5 million in significant expenses for the period primarily reflecting a \$1.5 million after-tax loss on the sale of the Avondale site in New Zealand as well as legal and consulting costs. It also includes the \$1.9 million after-tax loss arising from the reversal of the sale of our masterbatch operations in Vietnam. This has been reported in the financial statements consistently with the prior year, under discontinued operations. The sale did not complete due to unforeseen timing delays in obtaining license approvals.

This compares with NPAT in the prior period of \$37.3 million, which included the benefit of significant items and discontinued operations totaling \$12.1 million.

NPAT from continuing operations, before significant items was up 16.3% to \$29.3 million from \$25.2 million in the prior comparable half.

Sales revenue from continuing operations of \$700.5 million was up 2.1% compared with the prior corresponding half of \$685.8 million. Had the New Zealand dollar remained unchanged over the period, constant currency sales revenue would have been down 6.4% to \$641.8 million.

¹ Profit attributable to equity holders of the parent as reported in the financial statements

Operating EBITDA² of \$65.7 million was up 20.6% on the prior corresponding half of \$54.5 million. Had the New Zealand dollar remained unchanged over the period, EBITDA would have been \$58.1 million, up 6.6% on the prior corresponding half.

Constant currency EBITDA to sales margin increased to 9.1% from 7.9% in the prior corresponding half.

In comparison to the prior corresponding half, growth in EBITDA from continuing operations reflected:

- Volumes down 1%
- A 2% increase in constant currency unit margins³, primarily driven by improving margins in ANZ as a result of the turnaround and active margin management across all regions.
- Tight cost control, particularly in ANZ and the Americas

Fixed and operating costs were up 3% as additional capacity in China became operational. Excluding the costs relating to the new site at Changshu, operating and fixed costs rose 0.3%.

Unallocated costs were \$5.1 million. These relate to those corporate costs not allocated back to the respective regions.

Table 1: Reconciliation of profit available to equity holders of the parent company to EBITDA from continuing operations

(NZ\$ m)	1H16 Total Group	1H15 Total Group
Profit attributable to equity holders of the parent	24.9	37.3
Profit/(loss) from discontinued operations	(1.9)	13.0
Net profit attributable to equity holders of the parent from continuing operations	26.8	24.3
Other significant items before tax	2.1	1.2
Income tax expense/(credit) on non-operating items	(0.4)	(0.3)
Operating profit after tax	29.3	25.2
Tax on operating profits	7.8	5.2
Minority interests (non-controlling)	1.2	1.3
Share of associates	(1.0)	(0.8)
Net financing costs	8.7	6.8
EBIT	46.0	37.7
Depreciation and amortization	19.7	16.8
EBITDA from continuing operations	65.7	54.5

² Earnings from continuing operations before interest, tax, depreciation, amortisation, significant items, associates and minority interests.

³ Unit margins defined as sales revenue minus raw material costs divided by tonnage

The income **tax rate** applicable to operating profit for the period was 21.0%, up from 17.2%. This was a result of increased portion of earnings in the higher tax jurisdictions of Australia and the United States.

For the 2016 Financial Year, the tax rate on operating profits is expected to be approximately 25%.

Earnings per share (EPS) was 13.1 cents. This compares to 18.8 cents in the prior corresponding half, which included the benefit of significant items and discontinued operations, including the profit on sale of the Nuplex Specialties and Masterbatch businesses.

EPS from continuing operations, excluding significant items was 15.4 cents, up 21.2% on the prior corresponding half of 12.7 cents.

An **interim dividend** of 12 cents per share was declared by the Board. It will be paid on 4 April 2016, to all shareholders on the register on 17 March 2016.

The interim dividend represents a 92% payout ratio of net profit available to shareholders, or 78% of net profit from continuing operations (before significant items) available to shareholders.

This 20% increase in the interim dividend is consistent with Nuplex's intention to grow dividends in line with earnings.

The Dividend Reinvestment Plan will not be active.

CASH FLOW

Cash flow from operating activities of \$38.7 million was down 11.8% compared with the prior corresponding half cash flow of \$43.9 million.

The **working capital to sales ratio** for continuing businesses was 14.2% as at 31 December 2015, compared with 14.1% as at 31 December 2014. Management continues to expect NPX's working capital to sales ratio will be within its 14 - 16% target range.

Stay-in-business capital expenditure (SIB) for the half was \$11.7 million, equivalent to 69% of depreciation. SIB expenditure for the 2016 Financial Year is expected to be approximately \$36 million.

On a mid-cycle basis, on average, management continue to expect SIB capital expenditure to be approximately 75% of depreciation.

Capital expenditure for growth was \$3.1 million during first half of the 2016 Financial Year, following the completion of the program to increase capacity in Asia in the prior financial year. Capital expenditure for growth in the 2016 Financial Year is expected to be between \$10 million and \$15 million.

In the 2017 Financial Year it is expected to be between \$10 and \$20 million.

BALANCE SHEET

The average drawn debt for the period was \$217 million compared with \$261 million in the prior corresponding half. The reduction arose following the prior-period sale of Nuplex Specialties and Masterbatch in November 2014.

Gearing⁴ has increased to 21.5% as at 31 December 2015, up from 19.5% as at June 2015 as a result of increased borrowings to fund the on market buy-back, which was active during the early part of the period.

The average **funding cost** over the half was 5.3% compared with 5.4% in the prior corresponding half as debt was paid down in the higher cost countries of Australia and New Zealand.

Return on Funds Employed⁵ (ROFE) from continuing operations as at 31 December 2015 was 14.3%, up from 12.9% as at 30 June 2015 and 11.8% as at 31 December 2014. The improvement in ANZ's ROFE was the primary driver of the Group's increased ROFE for the period.

Nuplex continues to work towards achieving its Group ROFE target of greater than 16% by the end of the 2018 Financial Year.

OPERATIONAL OVERVIEW

Nuplex specialises in the development and manufacture of resins used in the formulation of surface coatings such as household paint, car paint, coatings used on white goods, wooden furniture, flooring, textiles, and adhesives. 85% of 2016 Financial Year sales from continuing operations were generated by the global coating resins business.

Resins bind together the ingredients of the coating, enabling it to adhere to the surface to which it has been applied. Importantly, resins strongly influence the performance and appearance of a coating by providing the required finish, colour-fastness, durability, and protection from sun-light, abrasion and corrosion.

In ANZ, Nuplex manufactures and distributes composite resins used in the formulation of fibreglass used in marine & leisure craft, building materials and general manufacturing. The leader in ANZ, it also has operations in Vietnam and Indonesia. In ANZ, Nuplex also has a Pulp and Paper resins business and in New Zealand it has a Construction Products business.

SAFETY

During the period, Lost Time Injury Frequency Rate for employees and contractors was both zero. The number of Reportable Injuries for employees declined to 5 from 9 in the prior corresponding half, and accordingly the Reportable Injury Rate for employees declined to 2.8

⁴ As measured by net debt to net debt plus equity

⁵ Rolling 12-month earnings before interest, tax and significant items divided by average opening and closing funds employed over the same twelve month period. Average funds employed excludes capital works under construction.

from 4.6. The Reportable Injury Rate for contractors of 4.5 is down from 5.1. Both rates reflect that there was one reportable injury in each period.

Across the group, the rollout of an extended set of safety leading indicators and the global safety management procedures continued. As at 31 December 2015, 12 of Nuplex's 16 sites were Lost Time Injury Free for three or more years.

	Lost Time Injuries Rate per million hours worked		Reportable Injuries Rate per million hours worked	
	1H16	1H15	1H16	1H15
Employees	0.0	1.0	2.8	4.6
Contractors	0.0	0.0	4.5	5.1

REGIONAL PERFORMANCE

Table 2: 1H16 Volumes by region

	1H16 vs 1H15	1H16 vs 2H15
EMEA	(1.8)%	(11.3)%
Asia	1.1%	4.4%
Americas	(11.4)%	(12.5)%
ANZ	2.0%	5.3%
TOTAL	(1.1)%	(3.8)%

Table 3: 1H16 sales and EBITDA by region

(NZ\$ m)	SALES REVENUE					EBITDA				
	1H16 Actual	1H16 Constant FX	1H15 Actual	Change		1H16 Actual	1H16 Constant FX	1H15 Actual	Change	
				Actual FX	Constant FX				Actual FX	Constant FX
EMEA	287.2	269.3	292.2	(1.7)%	(7.8)%	23.9	22.3	27.2	(12.1)%	(18.0)%
Asia	170.0	145.1	157.0	8.3%	(7.6)%	22.8	19.6	18.3	24.6%	7.1%
Americas	86.8	70.5	83.1	4.5%	(15.2)%	14.8	12.0	10.4	42.3%	15.4%
ANZ	156.5	156.9	153.5	2.0%	2.2%	9.3	9.3	3.0	210.0%	210.0%
Unalloc- ated costs	-	-	-	-	-	(5.1)	(5.1)	(4.4)	(15.9)%	(15.9)%
TOTAL	700.5	641.8	685.8	2.1%	(6.4)%	65.7	58.1	54.5	20.6%	6.6%

Regional seasonality: EMEA and the Americas typically have a stronger second half (January to June). This is due to the impact of summer vacations and the beginning of winter in the first half, as customer plant shutdowns usually occur prior to the end of the calendar year.

Raw material costs were down half on half because of the lower oil price. Constant currency unit margins were up 2% as management continued to execute its core competency of managing margins through the raw material cycle whilst balancing customers' expectations of seeing the lower costs flow through to them.

Europe Middle East Africa (EMEA)

Sales were down 1.7% (down 7.8% in constant currency) compared with the prior corresponding half.

Volumes fell by 1.8% when compared to the prior comparable period, primarily reflecting lower exports of Automotive OEM and Industrial coating resins to the Middle East, where the oil price decline weighed on economic activity. Exports to China of Automotive OEM related products were weaker than expected in the first quarter but improved in the second quarter. Powder resin volumes were down, when compared to the strong growth rates experienced in the 2015 Financial Year.

EBITDA was down 12.1% (down 18.0% in constant currency) reflecting the decline in higher margin exports to the Middle East and China. Also, powder resin margins were impacted by increased competition.

In Russia, Nuplex continued to build on its first mover advantage. Volumes were up strongly half on half reflecting increased sales to multi-national, regional and local customers. The Russian business was profitable, however its contribution was not material to EMEA's financial results given the impact of the devaluation of the rouble.

Asia

Sales were up 8.3% for the period (down 7.6% in constant currency).

Volumes were up 1.1%, primarily driven by strong volume growth in Vietnam.

EBITDA for the region was \$22.8 million, up 24.6% (up 7.1% in constant currency) compared with the prior corresponding half.

In China overall volumes were flat. After a weaker than expected start to the period following the impact of the stock market corrections on confidence, and, the one off event of the Tianjin explosion which impacted the chemical industry, sales in Automotive OEM resins picked up in the second quarter. Vehicle Refinish sales were steady throughout the half and sales of Wood resins related to export furniture were down.

At the new site in Changshu, China, production started transitioning from the commissioning phase to business-as-usual. Management expect volumes to continue to increase in the second half having obtained many of the necessary customer approvals during the first half. The continued sales development of waterborne products used in Wood, Ink, Textiles and Adhesives is gaining momentum and expected to translate into volume growth in these market segments in the coming periods.

The capacity in Vietnam, commissioned in 2012, continued to fill as building and construction activity strengthened on the back of economic reforms put in place in recent years.

A solid performance from Malaysia came from export growth to South East Asia.

In Indonesia, a steady performance was the result of subdued economic activity. Customer approvals for the new plant (commissioned in April 2015) were obtained during the period. In the second half of this financial year, filling of the new capacity is expected to drive volume growth.

Americas

Sales grew by 4.5% (down 15.2% in constant currency) compared with the prior corresponding half.

Volumes were down 11.4% due to reduced activity in the oil & gas industry and the loss of a tolling contract.

EBITDA growth of 42.3% (up 15.4% in constant currency) included the benefit of replacing lower margin tolling volume (which a customer internalised), with higher margin sales in the Flooring and Agricultural & Construction Equipment sectors.

Australia and New Zealand (ANZ)

Sales were up 2.0% (up 2.2% in constant currency).

Volumes were up 2.0% compared with the prior corresponding half.

EBITDA of \$9.3 million was up 210.0% or \$6.3 million (same in constant currency) when compared to \$3.0 million in the prior corresponding half.

Earnings benefited from the restructure and streamlining activities over the past year, as well as pricing, procurement and supply chain initiatives.

Coating Resins (approximately 45% of ANZ sales) volumes were down as resins volumes previously produced in New Zealand for sales development activities in China transferred to the new Changshu site as planned.

In December 2015, one of the three domestic coating resins manufacturers announced it would exit from local manufacturing by the middle of 2016. Management expect this should ease the impact of having excess manufacturing capacity in the Australian market.

Composites (approximately 42% of ANZ sales) experienced strong volume growth in Australia as a result of growth in the construction markets driving demand for composite resins used in pools, infrastructure and building products.

2016 FINANCIAL YEAR OUTLOOK

Nuplex expects 2016 Financial Year operating EBITDA to be between \$145 million and \$157 million. Previous guidance was between \$140 million and \$155 million.

Despite the fact that the global macro-economic outlook is uncertain, barring any unforeseen circumstances, for the remainder of the 2016 financial year Nuplex expects:

- EMEA will see a stronger second half, reflecting seasonality and higher levels of exports
- Asia to deliver on its 10% EBITDA growth
- Americas to deliver ongoing steady performance
- ANZ to continue to benefit from the turnaround underpinned by strong housing and construction activity

For further information, please contact:

Josie Ashton, Investor Relations ☎ +612 8036 0906 ✉ josie.ashton@nuplex.com

The non-GAAP financial measures used in this document include:

- **Operating EBITDA** – Earnings before interest, tax, depreciation, amortisation, significant items, associates and minority interest.
- **EBIT** – Earnings before interest, tax, significant items, associates and minority interest.
- **Significant items** – Items that by a combination of their size, timing or irregular nature warrant separate disclosure to allow readers to better assess the recurring income generating capacity of the business.
- **NPAT** - Profit attributable to equity holders of the parent company (after significant items).
- **ROFE** – Rolling 12-month earnings before interest, tax and significant items divided by average opening and closing funds employed over the same twelve month period. Average funds employed excludes capital works under construction.
- **Funds employed** – Total equity plus current and non-current borrowings, as reported in the Consolidated Statements of Financial Position.
- **Gearing** – Net debt divided by net debt plus equity.
- **Net debt** – Borrowings minus cash and cash equivalents.
- **Operating costs** – Cost of sales as reported in the Statement of Comprehensive Income less raw material costs, plus distribution costs.
- **Fixed costs** – Marketing expenses plus Administration expenses, as reported in the Statement of Comprehensive Income.
- **Capital expenditure** – Payments for property, plant and equipment and intangibles as reported in the Statement of Cash Flows.
- **Constant currency** – Information is presented in constant currency because group results are derived in many different currencies and Nuplex believes it is helpful to the reader to understand the results excluding the impact of changes in exchange rates. Constant currency results are calculated by translating reported period results into New Zealand dollars at the average foreign exchange rates applicable in the prior corresponding period.