



Simonds Group

Simonds Group Ltd

Annual results presentation

For the year ended 30 June 2016

30 August 2016





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FY16 Highlights

Simonds Group Ltd key results

Simonds Group has significantly re-set the business with key management changes, a shift of strategic focus and the discontinuation of underperforming businesses

Key Financial Overview

\$662.9m

Total revenue

Up \$34.1m on prior period

\$628.5m

Pro Forma¹ revenue

Up \$51.6m on prior period

\$(13.5)m

EBITDA post one-off items

Down \$14.1m on prior period

\$15.1m

Pro Forma¹ EBITDA

Down \$22.8m on prior period

\$(14.9)m

Net profit after tax

Down \$4.0m on prior period

\$5.3m

Pro Forma¹ NPAT

Down \$17.9m on prior period

Key Items

- Strong revenue growth driven by record house site starts in Simonds Homes Australia
- Statutory EBITDA impacted by a number of one off factors including:
 - Impairments of \$8.1 million
 - Management restructure costs \$2.6 million
 - Madisson loss \$17.9 million
- Management restructure with a number of key appointments bringing a wealth of senior executive experience to the Group, including
 - Matthew Chun, Group Chief Executive Officer & Managing Director
 - Mick Myers, Chief Financial Officer
 - Joanne Barber, Group Manager - People and Performance
 - Andrew Shea, Chief Executive Officer - Builders Academy Australia
- Orderly closure of Madisson business underway - full impact provisioned
- No final dividend will be paid for FY16

Strategic priorities

Re-setting the business for profitable growth

- Following a full review of business operations since appointment of the new CEO (including physical and financial due diligence) a number of areas were identified that required immediate action:
 - **Key focus areas**
 - Simplification of organisational structure
 - Reduce debt / improve cash flow
 - Reduce fixed costs
 - Change focus to increasing margin and profitability in addition to existing focus on revenue generation
 - Simplification of business across both the product range and locations of operations
 - **Key achievements to date**
 - Senior management changes reducing annual overhead costs by \$5 million (approx)
 - Over \$10 million debt reduction in the June quarter of FY16
 - Implementation of strict cost control measures throughout organisation reducing annual controllable overhead costs by \$2.5 million (approx)
 - Alignment and engagement of all staff across the organisation to margin and profitability improvements
 - Simplification of business underway
- Shift of strategic focus – from site starts/revenue growth focus to operational efficiency and profitable growth



Simonds Homes Australia key results

Record sites starts delivered in FY16

Key Financial Metrics¹

\$600.7m

Pro Forma² revenue

Up 11% on prior period

\$12.5m

Pro Forma² EBITDA

Down 53% on prior period

2,545

Site starts

Up from 2,471 in FY15

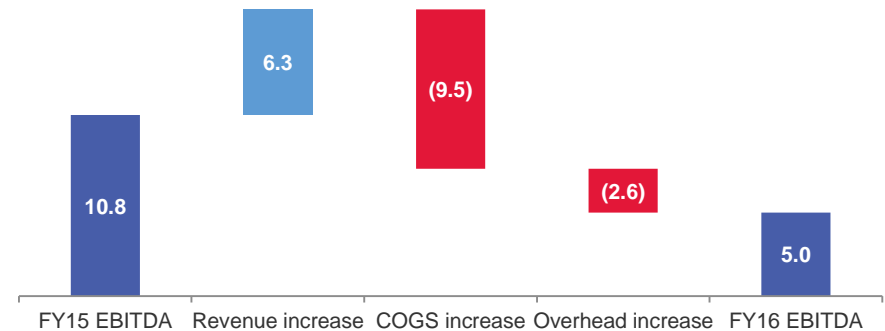
120

Total display homes

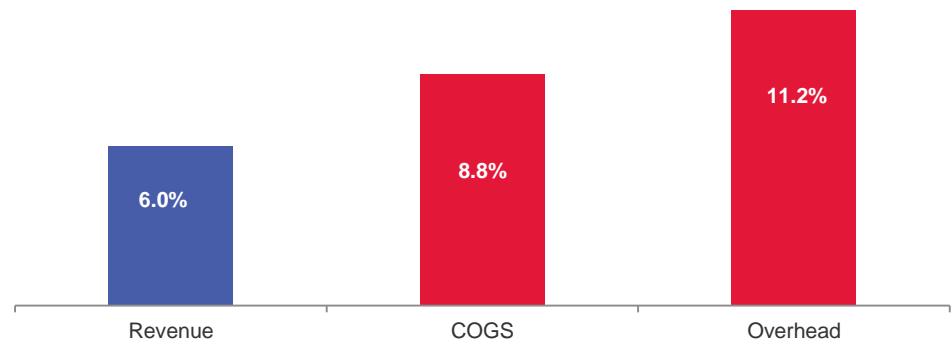
Up from 107 at 30 June 2015

- Housing market fundamentals remain strong
- Market growth and expansion states driving growth in site starts
- However, lower site starts overall were delivered than anticipated due to title delays, display home openings and trade shortages
- Reduction in margin due to inefficiencies in NSW/QLD expansion
- Customisation of house designs helped secure sales but did not deliver higher margins
- Higher overhead costs due to business structured for >2,800 site starts

FY16 Pro Forma EBITDA breakdown per house start (\$'000s)



Increase in EBITDA component per house start (YoY)³



1. Excludes Madisson as it is a discontinuing operation

2. Pro Forma adjustments, refer Slide 9

3. Divestment of displays and non-core development land excluded from analysis

Builders Academy Australia key results

Building a sustainable platform

Key Financial Metrics

\$19.1m

Pro Forma¹ revenue

Down 18% on prior period

\$3.6m

Pro Forma¹ EBITDA

Down 66% on prior period

2,232

Active students

Down from 4,155 in FYE15²

3,306

Graduated enrolments

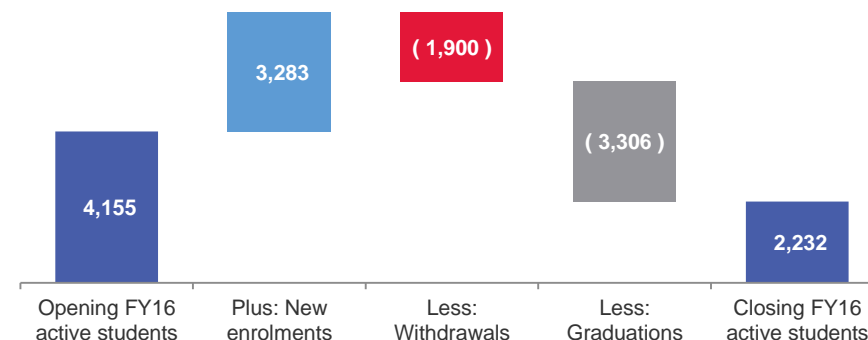
Up from 2,267 in FY15

- Significant investment in student experience to aid retention
- Diversification of delivery model with roll-out in late FY16 of Virtual Classroom delivery³
- Improvement in governance and management systems and processes with continued focus on embedding a quality framework across all operations
- Extension of course durations to ensure students have sufficient time and support to complete their studies

FY16 total course commencements

Qualification	Physical	Virtual	Total
Certificate IV in Building & Construction (Building)	910	129	1,039
Diploma of Building & Construction (Building)	702	124	826
Certificate IV in Work Health and Safety	486	37	523
Diploma of Building and Construction (Mgt)	554	38	592
Other courses	297	6	303
Total	2,949	334	3,283

FY16 student profile



1. Pro Forma adjustments, refer Slide 9
 2. In FY15 students were more commonly enrolled into 2 qualifications from their initial enrolment. In FY16 students are commonly enrolling into their second qualification only when near the completion of their first.
 3. Under this model students who are unable to attend face-to-face classes can attend via interactive video conferencing software where they can actively participate in class discussions.

Land development key results

Developing a growth pipeline

Key Financial Metrics

\$8.7m

Pro Forma¹ revenue

Down from \$11m in FY16

\$(1.0)m

Pro Forma¹ EBITDA²

Down from \$(0.7)m in FY16

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Current Projects

All underway in Victoria

292

Total lots

To be delivered in FY17 & FY18

Project Status Overview

Direct Holdings

Portland, Vic

30 lots with civil works complete in July 2016 and settlements anticipated throughout 1H FY17

Bendigo, Vic

17.2Ha site with permit approval for 186 lots

Indirect Holding

Minority holding in dedicated Simonds Land Fund Syndicate No. 1, consisting of two seed sites:

1. Mernda, Vic

35 lots with planning approval

Civil works due to commence in September 2016 with settlements expected in 2H FY17

2. Officer, Vic

41 lots with planning approval expected in 1H FY17 and settlements expected in FY18

1. Pro Forma adjustments, refer Slide 9

2. includes Chun Property Advisory contribution for 3 months in FY16



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Key Financials



Financial results summary

Record revenue levels but operating earnings impacted by increased costs across the business

FY16 Operating earnings reconciliation

	Pro Forma ¹		Statutory	
	FY16	FY15	FY16	FY15
Revenue	628.5	576.9	662.9	628.8
COGS	(496.8)	(438.7)	(542.0)	(486.4)
Gross Margin	131.7	138.2	120.9	142.5
Overheads	(116.6)	(100.3)	(123.7)	(107.5)
EBITDA (pre adjustments)	15.1	37.9	(2.8)	35.0
Significant one-off items	-	-	(10.7)	(34.4)
EBITDA (post adjustments)	15.1	37.9	(13.5)	0.6
Depreciation, Amortisation and Financing items	(7.8)	(4.7)	(7.8)	(4.7)
Tax benefit / (expense)	(2.0)	(9.9)	6.4	(6.8)
Net Profit After Tax	5.3	23.2	(14.9)	(10.9)

FY16 earnings by segment

	Group	SHA	BAA	SLD	MPA
Pro Forma EBITDA	15.1	12.5	3.6	(1.0)	-
Impairment of IT project costs	(3.7)	(3.7)	-	-	-
Impairment of non-core development land	(1.7)	-	-	(1.7)	-
Accelerated impairment of display and speculative homes inventory	(2.7)	(2.7)	-	-	-
Management restructure costs	(2.6)	(2.6)	-	-	-
Madisson operating loss	(17.9)	-	-	-	(17.9)
Significant items	(28.6)	(9.0)	-	(1.7)	(17.9)
Statutory EBITDA	(13.5)	3.5	3.6	(2.7)	(17.9)
Depreciation, Amortisation and Financing costs	(7.8)	(6.7)	(1.0)	-	(0.1)
Statutory PBT	(21.3)	(3.2)	2.6	(2.7)	(18.0)
Add back tax benefit	6.4	1.0	-	-	5.4
Statutory NPAT	(14.9)	(2.2)	2.6	(2.7)	(12.6)

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 impairment and restructure costs impacting continuing operations.



Summary of one-off losses and impairments

Simonds Group has incurred \$28.6 million of one-off losses, costs and impairments for the full year as the business is re-set for profitable growth

- Statutory EBITDA has been significantly impacted by impairments totalling \$8.1 million, restructure costs of \$2.6 million and closure costs of discontinuing operations of Madisson \$17.9 million
- Madisson has been heavily impacted by project delivery delays and increased costs to complete the remaining projects, since the decision to discontinue and close Madisson was announced in January 2016
- Pre-tax impairments and other adjustments include:
 - Cash and non-cash items relating to the senior management changes announced during FY16;
 - Capitalised project and IT costs written off relating to discontinued systems projects;
 - Display and speculative homes and land holdings sold during the June quarter of FY16; and
 - Revaluation of the land development portfolio.

Operating EBITDA reconciliation (\$m)	FY16
Operating EBITDA	15.1
Impairment – IT project costs	(3.7)
Impairment – display and speculative homes	(2.7)
Impairment – development land	(1.7)
Management restructure costs	(2.6)
Madisson losses	(17.9)
Significant items	(28.6)
Statutory EBITDA	(13.5)

Balance sheet

Strengthening the Balance Sheet a key focus

- Key drivers of the Net Asset deterioration were the impact of Madisson Projects losses and capital management initiatives
- Receivables and payables in line with the prior period
- Lower inventories due to the release of capital previously held in display and non-core speculative land and home inventory of approximately \$25 million in the June quarter of FY16
- Debt increase associated with establishment of \$5m facility with Simonds Homes Display Fund managed by Aura Funds Management in September 2015 and increase in lease facilities of \$1.5m and CBA Margin Rate Loan facility \$2.0m at year end
- No final dividend to be paid for FY16

Balance Sheet (\$m)	30 June 2016	30 June 2015
Assets		
Cash / Equivalents	3.2	5.5
Receivables	43.6	45.0
Inventories	49.6	71.7
PP&E	9.8	7.4
Other	17.5	14.6
Total Assets	123.7	144.2
Liabilities		
Trade / other payables	75.6	75.7
Debt	11.3	2.8
Provisions	21.5	18.2
Other	18.6	20.8
Total Liabilities	127.0	117.5
Net Assets	(3.3)	26.7

Cash flows

Positive operating cash flow

- Growth in receipts from customers reflects sales growth and proceeds from the disposal of display homes and non-core development land holdings
- Payments to suppliers grew in line with growth in COGS
- Investment activities included the investment in the Simonds Land Fund Syndicate No. 1 of \$1.2 million
- Net cash flows from financing activities included the proceeds from borrowings of \$7.0 million relating to the Simonds Land Fund Syndicate No. 1 and CBA financing, offset by dividend payment of \$7.9 million and share buyback of \$8.0 million made during FY16
- Focus remains on debt reduction opportunities

Summary cash flows (\$m)	FY16	FY15
Cash flows from operating activities		
Receipts from customers	664.0	609.0
Payments to suppliers / employees	(637.7)	(603.9)
Interest paid	(2.2)	(1.0)
Income taxes paid	(9.2)	(10.3)
Net cash generated from operating activities	14.9	(6.2)
Net cash from investing activities	(7.3)	(8.4)
Net cash from financing activities	(9.9)	4.2
Net decrease in cash	(2.3)	(10.4)
Cash / Equivalents at end of the period	3.2	5.5



03

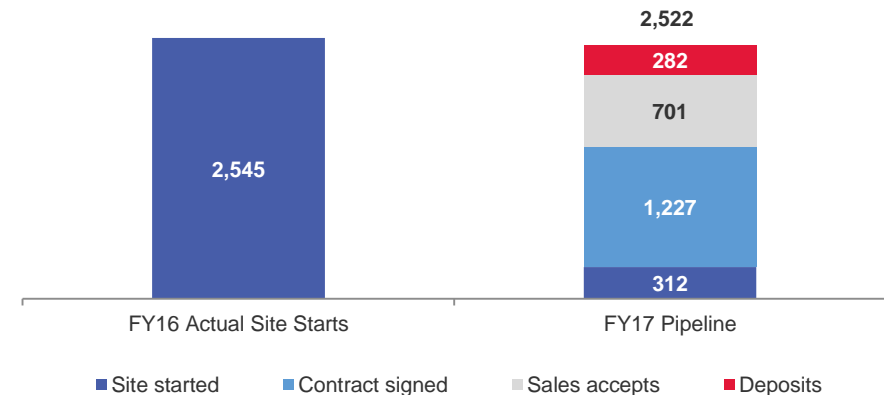
FY17 outlook

FY17 outlook

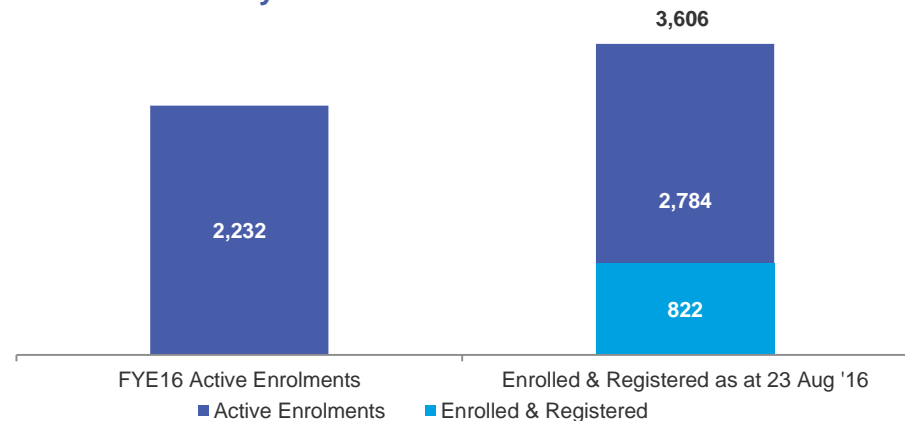
Positive FY17 outlook

- FY17 has commenced strongly:
 - Significant visibility into FY17 Simonds Homes Australia pipeline and Builders Academy Australia enrolments
 - Increased maturity into NSW and QLD markets
 - Further roll-out of virtual classroom and VET Fee Help courses in Builders Academy Australia
 - Closure of Madisson business with all anticipated future losses already provisioned in FY16
 - Operating cost saving initiatives (commenced in 2HFY16) aimed at removing surplus overheads from the business
 - Focusing on reducing debt levels and executing on core activities
- Significant challenges remain including operational environment in NSW and QLD and the regulatory environment relating to the vocational education sector
- Priority is re-setting the foundations and strengthening the business
 - Sharp focus on simplification of core product and locations
 - Greater collaboration and new ways of working together across the business
 - Disciplined cost controls embedded and regular reporting against KPIs by management
 - Overheads reset to be more flexible in line with operation levels and key metrics set for each area
 - Streamlining of student enrolment and on boarding processes

Simonds Homes Australia sales pipeline



Builders Academy Australia active enrolments



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Thank you