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Trading update and revised guidance for the 2018 financial year

Metro Performance Glass today provided an update on recent trading performance and guidance on anticipated results for the financial year ending 31 March 2018. In addition the company gave updates on the ongoing strategic review.

Metro Glass estimates that full year FY2018 results will be in the following range:

NZ$m	FY2018 Guidance	FY2017 Actual [1]
Normalised NPAT[2]	18.0 – 18.5	21.3
Reported NPAT	16.0 – 16.5	19.4

Metro Glass now expects Normalised NPAT for FY2018 to be at or slightly below the bottom of the previously provided guidance range of $18.5 - $20.0 million. This is principally a result of weaker than expected Australian performance as it completed a complex and protracted capital program.

The Group will also have some one-off abnormal costs impacting Reported NPAT relating to the change in CEO that were not anticipated in the previous guidance. The commentary below explains each of these drivers in further detail.

FY2018 capital programme

The extensive capital programme is now complete. This will provide significant capability enhancements, plant simplification and better geographic alignment of equipment to market opportunities at the Group's seven processing plants.

The New Zealand programme went largely to plan, however the Australian programme proved challenging. Australian Glass Group (AGG) had to work around significant shipping disruptions delaying some key equipment beyond the planned shutdown period. As a consequence, AGG's sales, costs and customer experience were impacted in December, January and February.

The Group is now back to full operation, and is focused on delivering strongly for customers and improving processing efficiency.

Update on general trading and manufacturing

Underlying financial performance in the New Zealand business stabilised in the second half of the financial year, with steady sales across the country and no further pricing deterioration in the South Island.

Commercial glazing sales in the second half will be lower than those achieved last year. However, profitability has improved as the business focused on projects within its core competencies. The forward book of work has remained constant at circa $30 million.

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[1] FY2017 results included seven months of trading from Australian Glass Group. Metro Glass incurred $1.0m of one-off, non-deductible due diligence expenses when acquiring AGG. Normalised NPAT excluded these expenses as well as tax adjustments relating to IPO expenses and the finalisation of prior year tax positions.
[2] FY2018 Normalised NPAT excludes one-off CEO departure and recruitment costs.

A new advertising campaign[3] and ongoing investment in the Retrofit business' infrastructure has helped to ensure it is on track to meet its 30% revenue growth rate target in FY2018. This has been achieved with improved profit margins versus last year.

Manufacturing performance in the Upper North Island has been below expectation in recent months. With the capital programme completed, the business is now fully focussed on driving increased throughput and efficiency at the Highbrook plant and delivering improved service to customers into FY2019.

AGG's performance has been below expectation due to the longer than anticipated disruption from the capital programme. The Sydney plant also encountered periods of poor machine reliability prior to the execution of the capital programme. AGG's third processing plant, in Hobart Tasmania has recently opened and is now operational. This plant has double glazing, LowE (high performance glass) and edge-working capabilities. This investment is aligned with the Group's vision of becoming the service and product differentiated market leader in the South East Australian double glazing market.

The Group had non-recurring costs of circa $2.0 million in FY2018 relating to spikes in NZ electricity pricing and one-off consultancy costs associated with the strategic review and manufacturing improvement projects.

Recruitment and transition plans for a new CEO

As announced on 14 December 2017, Metro Glass' CEO Nigel Rigby resigned with effect from 30 March 2018.

Metro Glass Chairman Peter Griffiths said, "Finding the right leader to take Metro Glass forward is critical and an international recruitment process is underway. In the interim, the Group will be led by the senior leadership team with close support from the Board. The Board has confidence in the leadership team, which remains focused on the optimal operation of the company."

Outgoing CEO, Nigel Rigby, will receive his contractual entitlements of 1 year's salary and also consideration for extending his restraint of trade to two years. No portion of the annual STI or LTI schemes will be paid. A one off incentive that was proportionate to performance criteria for the current financial year (in particular, delivery of the capital installation program and manufacturing improvement plan) will be awarded. FY2018 Normalised NPAT excludes the one-off CEO departure and recruitment costs. Mr Rigby will also repay an outstanding employee loan in April 2018 relating to the purchase of company shares, totalling $1.3m.

Strategic Review

Mr Griffiths said, "the strategic review announced in October 2017 is well progressed. After very strong sales growth over a number of years, we expect that activity in our core New Zealand market will remain flat and may eventually soften. The South East Australian market continues to show strong demand. Accordingly, this review has challenged the historic focus on revenue growth, protection of market share, and reviewed the Group's ability to generate acceptable returns over time from its investments.

"Based on work completed to date we have confidence that Metro Glass' strategy and purpose are valid. We will continue to be a customer focused organisation that delivers market differentiated glass products and glazing services. We have attractive positions in our key markets and have well considered plans to improve their financial returns.

"AGG has good long-term growth opportunities. We have capacity for increased sales in the South East of Australia and intend to achieve material profitable growth there over the next 24 months.

"The New Zealand business is now well set up to satisfy the anticipated market demand in coming years, and will focus on becoming more efficient and productive.

"The Group will actively prioritise our efforts on the areas with the strongest opportunities to improve customer experience and shareholder returns, and expect to reduce debt over the next 24 months.

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[3] Recent advertising has focused on the benefits from double glazing and LowE glass in summer (keeping the house cooler). View the advert by clicking the "Latest on TV" tile at http://www.retrodg.co.nz/.

“To ensure the Group achieves these goals and produces improved financial results, a critical pillar of our strategy will be a greater investment in our people, their capabilities and support systems.

“We will provide more detail on the results of the review alongside our results announcement scheduled for the 24 May 2018.“

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