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*Metro Performance Glass Limited*  
*Annual Shareholders' Meeting, 25 July 2019*

**Chair's address**

Ladies and gentlemen, I'd now would like to make some remarks on Metroglass' 2019 financial year and our competitive landscape, reiterate our four strategic pathways, and cover the Board's priorities.

After an extensive search we were pleased to appoint Simon Mander as Chief Executive in November. He has been with us for eight months but is already in high gear bringing his style and focus to the successful delivery of our strategy, which remains focused on consistently delivering high quality products and services to our customers. You will of course hear from Simon shortly.

The Metro Performance Glass group had a busy and challenging year with both significant positive achievements and some disappointments.

In New Zealand, which represents approximately 80% of group revenues, we made steady progress this year with improved operating performance and financial results. Product quality and delivery performance improvements were sustained well through FY19, supporting a record revenue result. New Zealand's EBIT of \$31.1 million was also among the highest achieved in the last 10 years.

Market fundamentals in New Zealand remain supportive for Metroglass with annual dwelling consent numbers now at a 45-year high, alongside a very healthy pipeline of non-residential projects.

In contrast however, our Australia business, the Australian Glass Group continued to struggle to bed in the substantial changes we have made in the past 24 months. These changes have included: a capital programme to enhance manufacturing capability and capacity, shifting the supply chain to use imported raw glass supply, refocusing the manufacturing and sales effort towards double glazing, and opening our third Australian glass processing factory.

In hindsight, we overestimated our ability to work effectively on this wide range of initiatives. Across the board, our progress was slower than we expected. Consequently, operational performance and customer service was negatively impacted in the period. The resultant financial loss and intangible asset impairment recorded in Australia has overshadowed the strong performance in New Zealand.

The Executive team and the Board recognise that AGG's results are not acceptable. For some time now AGG has been executing detailed state-by-state recovery plans and pleasingly I can report that the operating metrics at every site have now been at much improved levels for more than six months.

Delivering on the opportunities we see in Australia will take time, and we don't want to repeat our mistake of being overly confident of our ability to execute rapid change. We're very focussed on building customer trust and confidence in the quality of our products and the reliability of our service.

At our current rate of progress, we expect to significantly reduce the EBIT loss in Australia this financial year, with year on year improvements weighted towards the second half.

In November last year we announced our decision to change our capital management stance to prioritise debt reduction and suspend dividend payments. This decision was made after reviewing the group's operating performance, the dynamics of our increasingly competitive landscape, group capital demands and the uncertainty of how the Australasian building cycles might evolve in the coming years.

Pleasingly, stronger cash flows in New Zealand enabled net debt to be reduced by \$11 million in FY19, ahead of the \$7 million we had previously indicated.

At 31 March 2019, the group's gearing ratio of net debt to EBITDA was 2.1 times. Currently, we expect this ratio to fall below our target of 1.5 times in the first half of the 2021 financial year. At that point the board will have the opportunity to review our capital management position again. We will have a range of options to consider including resuming dividend payments or possibly a share buyback. We will update shareholders on this matter alongside the company's FY20 results release in May next year.

The demand for glass products and solutions continues to grow in both New Zealand and Australia, encouraging capacity investment from both new and existing operators, and stimulated import competition.

Our pivot away from pursuit of top line sales growth to a focus on quality and service performance may see our share of the total market progressively reduce but we expect our revenues to remain steady while our profitability improves.

We know that our customers already have many choices on where to buy and we are working hard to further differentiate and reinforce Metroglass' value proposition so that we remain the supplier of choice.

During the year a large aluminium extruder, APL, announced plans to build a new glass processing plant near Cambridge. This announcement had a substantial negative effect on Metroglass' share price. The board believes that the market capitalisation does not reflect the underlying value of the enterprise and implies an overly pessimistic view of the group's future performance.

Once the APL facility is built and operating reliably, we do anticipate a reduction in our sales to affiliated window fabricator customers, primarily from those near the plant.

To put this issue into proportion, circa. \$25 million of our New Zealand revenue in FY19 of \$217 million was associated with APL affiliated customers in the upper North Island. We expect that some of these customers will be the initial targets once their new plant becomes operational. We anticipate the APL facility to commence production in mid-2020 so that these impacts are likely to start over the course of FY21.

You can be assured that we are working on customer retention strategies which will help to mitigate the impact from increased competition and industry capacity. The board and management are continually considering a range of future scenarios for the glass industry in Australasia, with many aspects of the market changing right now. Some participants are accumulating and integrating existing businesses, while others have changed ownership and are pursuing different strategies.

Metroglass currently holds a key position in both New Zealand and Australia and we are confident we will generate the appropriate strategic responses as they are required. While some shareholders have asked us to disclose more details of these options, as the only remaining locally listed operator we consider these commercially sensitive.

At Metroglass our vision is to be the leader in glass solutions. We seek to do this by providing the best solutions and service to our key customers and making Metroglass a great place to work.

We continue to believe that we have the correct strategy in place, and we're focussed on our four strategic objectives of delivering market-leading service for our customers, developing our organisation capabilities, utilising Metroglass group's scale and leadership position across a wide range of channels and markets, and finally, leveraging our scale and quality assets to deliver solutions efficiently and driving for lower unit costs.

In closing I'd like to make a few remarks on governance. From my point of view as Chair it has been important for the board to be stable for the past year particularly in the absence of a CEO. During this period, all directors were, and still are, highly engaged and committed to Metroglass' success.

As a board we constantly seek to be more effective governors of the company by regularly reflecting on our process and practices. We persistently ask ourselves if we are sufficiently focused on the future and what the key issues for the group truly are.

We also recently undertook an extensive formal review of the board with an external consultant to support the board in our pursuit of greater effectiveness.

I'd now like to invite our CEO Simon Mander to speak to you and then we will pause for questions. Thank you.

### **Chief Executive Officer's address**

Good morning everyone.

Firstly, I'd like to thank you all for attending today. I have spent a lot of my time since joining Metroglass talking with customers, staff, suppliers and shareholders in NZ and Australia.

One thing that is consistent is that there is a clear desire from all stakeholders to see Metroglass get better. Our customers want us to get better so their businesses can be more successful, our staff want us to be better to enable our customers to be more successful and of course our shareholders want and deserve improved performance.

In Australia it is clear it was a very difficult year for AGG. I spoke about this at some length when we announced our results in late May. What I can say is that I am greatly encouraged by the improved level of staff engagement and steady operational improvements I see each time I visit.

It is very clear to me that Metroglass has changed significantly in the last year which may not yet be obvious to those outside the business. I think it can be best described as a move away from the maths and machines to a focus more on the people who make it all work and of course refocusing on the customer. We have been arguably guilty of being too internally focussed – but we had plenty to work on.

Pleasingly, we have seen our operational performance metrics and our staff engagement metrics improve. When I visit our factories and branches and talk with staff the feedback is consistent – "It's a different Metro, we feel in control. It is getting better".

When I visit customers, I am told that our customer service is good and improving and we are much better at communicating issues than a year ago. Our recent customer survey shows we still have work to do in improving our product quality and our delivery performance. I am confident that with our engaged staff and improved operations we will deliver on this.

Earlier this calendar year we changed the organisational structure of both our NZ and Australian businesses.

In NZ we have moved to a regional structure to improve the speed of internal decision making so we can be more responsive to our customers. Our factories now report locally rather than nationally.

In Australia, post year end we reduced our overhead and moved to a simpler structure bringing NSW and Victoria into a single grouping with Tasmania remaining a satellite operation.

How have these changes been reflected in our financial performance?

To summarise the group's financial performance in the 2019 year:

- The group delivered revenue of \$268 million in line with the prior comparable period, and EBIT before significant items of \$25 million, below the prior year, but in line with our March guidance. This resulted in an NPAT before significant items of \$14.2 million.
- New Zealand had a good year with revenue growing 2%, to \$217 million, and EBIT growing 6%, to \$31 million.
- AGG had a very challenging year and delivered an EBIT loss of \$4.8 million for the period. This result contributed to the decision to impair the value of AGG's intangible assets by \$10 million.
- We continued our focus on debt reduction, decreasing reported net debt by \$11 million to \$83 million.
- We made good progress on our people and customer focussed initiatives in New Zealand. Our operational performance with customers improved significantly, along with employee voluntary turnover which reduced from 31% to 22% in the year and absenteeism reduced by approximately 10%.
- Operational and service improvements have been achieved in Australia following the business reset during the year, with further remedial milestones in place. I'll cover this more later.

Further to Peter's introduction, I'd like to share with you the progress we made against our strategic initiatives during the year.

To deliver market leading customer service we must make it easy for our customers to do business with us and we must support our customers' success. We sought to further understand our customers' needs by introducing an ongoing programme of surveys and engagement, first in September 2018 and then last month. The feedback from our September 2018 survey allowed us to prioritise our initiatives and focus on driving higher product quality standards and improving delivery performance. While our operational performance metrics show our quality improving and our delivery performance lifting our most recent survey tells us our customers need us to do more work in these areas – and we agree. I'll come back to this shortly.

During the 2019 financial year, while service levels in New Zealand improved, AGG's service levels were volatile and well below target. Following the business reset, AGG has now been delivering at much improved and more consistent levels for more than six months, and we're pleased to have had many customers return to us.

We focussed on developing our organisational capabilities through engaging with our teams, aligning wage rates, strengthened leadership and supervision in our manufacturing plants, underpinned by a culture targeting safety and quality.

At Metroglass we believe that all injuries are preventable, and that our people should get home safe every day. While our total reportable injury frequency rate improved in FY19 versus the prior year, we were disappointed that the number of lost-time injuries increased after reductions in each of the two previous years.

We are working hard to ensure safety is at the forefront of people's minds. In addition to adding a Group Health and Safety leader, who reports directly to me, we have worked to strengthen our incident investigation process and even developed improved personal protective equipment ourselves where we don't consider the industry standard equipment is good enough to adequately protect our people.

We have also launched an improved performance management program, supporting the relationship between managers and their direct reports towards meaningful conversations. Pleasingly, voluntary employee turnover reduced from around 31% to around 22% in the year.

Metroglass maintains its position as the largest glass processor in New Zealand and increased both revenue and profitability in FY19.

In Australia, we commissioned a new Tasmanian facility that achieved its first-year objectives and launched our best in class range of low emissivity (LowE) double glazed units into the market.

Finally, in regards to our fourth objective of leveraging our scale to deliver solutions efficiently, I was particularly pleased with the manner in which we reshaped our South Island business to better service the reduced activity levels in the region, and with the innovation being shown in trialling an improved finished goods delivery system that will improve efficiency in logistics as it is rolled out.

I'd like to highlight some other achievements from the year, including:

- That 30% of the workforce at our Highbrook plant are now involved in self-led kaizen / continuous improvement projects focussed particularly on improving our quality proposition
- We reinitiated a staff engagement survey and held more than 30 action planning workshops with our people to move us forward
- Voluntary employee turnover reduced by 9%
- We had 27 apprentices engaged through the business in FY19 as we seek to develop the capabilities needed for our workforce from within. This is a big focus for us, and we now have more than 50 apprentices enrolled
- I am also proud to share that we have won a few awards this year:
  - We won two Windows and Glass Association of New Zealand awards for designing with glass in commercial projects
  - And, at an individual level, we are proud of Jacob Clayton from Dunedin who won the Most Promising Apprentice – Glass and Glazing award.

Last September we conducted an internally created customer survey which gave us great insight into what our customers valued in their glass supplier. The key factors they were looking for were quality, lead time and delivery in full. Based on this, we launched numerous improvement initiatives to target improvements in these areas.

In June this year, using an external provider, we surveyed 473 people across 182 of our NZ and Australian customers. We are pleased that 74% of our customers responded compared to a normal expected response rate of 56%. In NZ our overall rating was 7.3 out of 10 and in Australia we achieved 8.0 out of 10.

We have committed to conducting this survey every 6 months for the next 2 years so it will be interesting to see how we improve.

More importantly though it is what our customers are telling us rather than the absolute score. Looking at the word map – broadly Green is Good and Red is where we need improvement. You'll notice that the same word appears in Green and Red – some customers rate us positively on one aspect while others rate us adversely on the same thing.

In NZ the feedback is that our Customer Service, Account and Project Management is good while we clearly have more work to do on our delivery performance and quality. In Australia our Customer Service, Account and Project Management and delivery performance is rated highly although we have more work to do to improve our quality.

This feedback provides rich information which we are feeding into our improvement plans.

New Zealand's elevated levels of residential and non-residential construction are persisting, however supply constraints in the broader market are likely to limit growth.

These macro-factors are supportive of our New Zealand business, as we focus on execution.

Given the customer feedback last year we embarked on a suite of performance improvement initiatives. Pleasingly, our quality and delivery performance improvement initiatives have progressed well through FY19 and into FY20. There has been a notable increase in quality as evidenced by reducing the percentage of products that reach our customers damaged, or not at the expected quality. As we continue to improve in this area, we would expect to see our customers reflect this in their feedback.

In Australia, we note the softening of leading indicators of Australian residential construction activity, particularly in multi-residential approvals.

Australian Glass Group is primarily involved in new detached houses and alterations and additions, in the South East of Australia. These segments and regions have been less impacted to date; however, leading indicators suggest activity levels will soften in the coming 12-24 months.

Countering this however, we are a smaller player in a fragmented market, and continue to see the penetration of double glazing increasing alongside supportive regulatory changes in our target markets. I'll talk to this in more detail shortly.

Australia has pleasingly continued its operational recovery entering FY20. Not only has our service delivery to customers improved in DIFOT terms, but the average lead-time has roughly halved from 8-9 days to 4-5 days. In terms of quality, reworks are at their lowest seen in over 12 months.

Energy efficiency in residential buildings plays an important role in lowering energy bills for households. It also improves the comfort and health of occupants, saves energy and reduces wastage for the wider economy.

A key thesis behind Metroglass' expansion into Australia via the acquisition of Australian Glass Group was the currently low but increasing usage of double glazing in new residential buildings. Metroglass has strong core competencies in double glazing production and this market provides us with significant opportunity.

In New Zealand, more than 90% of new homes are double glazed. In Australia this is currently much lower, with Victoria and Tasmania at approximately 70% and New South Wales at 10-15%.

Australia's revised National Construction Code came into force in May this year, requiring increased energy efficiency in new commercial buildings. The current expectation is that a similar change will be applied to residential buildings in the next code review in 2022, with strong initial requirements in colder climates.

This roadmap of increased energy efficiency requirements will continue to support the increased use of double glazing into the future.

We are well positioned within the market to benefit from these changes in building codes, and with a focus on getting the customer service and quality right, we can prosper over the long term.

Looking forward to the 2020 financial year:

- While consents in New Zealand have increased, we expect activity levels to be similar to last year given persistent supply-side constraints
- In Australia, we expect to deliver an improved result despite further contractions in housing starts
- Financially, we currently anticipate:
  - Group EBIT of between \$25m - \$27m. This is before the impact of the changes to lease accounting standards which we expect will increase EBIT by circa. \$2m, and
  - Net debt reduction of circa. \$15m

I'd like to take the opportunity to thank all our shareholders, staff and the Board for their support this last 8 months and for the way you have all welcomed me into Metro Performance Glass. I have really appreciated this support and have enjoyed my time here.

Thank you.