Hellaby Holdings Limited
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HELLABY ANNUAL RESULT ANNOUNCEMENT

Hellaby full year result at the top end of guidance, dividend maintained as new strategy is implemented

Hellaby Holdings Limited (HBY) has announced its results for the financial year ended 30 June 2016, with earnings at the top end of guidance provided on 30 May 2016, as it implements its new strategic direction.

The FY 2016 result[1] reflects a soft performance from the Resource Services Group, as it was impacted by significant volatility in the oil and gas sector, along with decreasing sales from the Footwear Group. This was offset by the Automotive Group which benefited from two acquisitions[2], and a steady contribution from the Equipment Group, which is under a conditional sale and purchase contract.

Group sales for the year to 30 June 2016 were $795.5m, up 2.0% (FY 2015: $779.5m) with contributions from the Automotive Group acquisitions and positive sales from the Equipment Group offsetting reduced year-on-year sales in the Resource Services and Footwear Groups. The Packaging Group, which provided $43.6m of sales in FY 2015, was sold at the end of that year.

Trading EBITDA (net trading surplus before interest, tax, depreciation, amortisation and other non-trading items) was $46.8m (FY 2015: $59.1m; guidance $43m to $47m).

Trading EBIT (net trading surplus before interest, tax and other non-trading items) decreased to $31.4m (FY 2015: $44.7m; guidance $28m to $32m).

The result includes expensed investment costs of $1.0m associated with the start-up Trucks and Trailer Parts business in the Automotive Group. In addition, corporate costs increased by $1.4m during the financial year, largely due to a significant restructure and downsizing of the corporate office.

Group NPAT (net profit after tax) of $19.6m was down on last year's record result of $28.4m. Group NPAT attributable to shareholders of the parent company was also $19.6m (FY 2015: $27.4m). The result includes a $2.5m non-cash gain on recalculation of contingent consideration payable in respect of the Contract Resources put call option on the outstanding 15% minority shareholding that is exercisable on 30 June 2018.

Hellaby CEO, Alan Clarke, said: "FY 2016 was a difficult year and not one we expect to be repeated. We do expect to see a stronger performance in FY 2017 as our new strategic plan takes effect and we focus on building scale and market share in our Automotive and Resource Services Groups."

Hellaby's directors have declared a final fully imputed dividend of 12.5 cents per share for FY 2016, taking the full year dividend to 21.5 cents per share. As previously advised to the market, the company's Dividend Reinvestment Plan remains suspended.

Steve Smith, Hellaby's Chairman, said: "This is the same dividend per share that we paid on our record profit performance last year and is an indication of the board's confidence in the company's new strategy and the future sustainable earnings that are expected to be generated."

The company maintains a conservative capital structure, with gearing of 28.8% as at 30 June 2016, providing significant capacity for future growth initiatives in the two core Groups.

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[1] Commentary includes the combined performance of continuing and discontinued operations. The Packaging Group was divested in FY 2015 and in June 2016 the Equipment Group was announced as being conditionally sold. Both Groups are therefore treated in this commentary and the financial statements as discontinued operations. The total results of continuing and discontinued operations are the Group's preferred measure for comparing year-on-year performance

[2] JAS Oceania acquired June 2015 and Premier Auto Trade (PAT) acquired May 2016

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Business Group Performance

Hellaby operated four business Groups in FY 2016 – Automotive, Resource Services, Footwear and Equipment. The first two of these Groups have been confirmed as Hellaby's long term investment areas under its new strategy which was announced in the final quarter of FY 2016.

Hellaby announced two significant acquisitions during the year. Premier Auto Trade (PAT) was acquired for A$13.0m (NZ$14.1m) for the Automotive Group and settled on 2 May 2016. TBS Group was acquired for the Resource Services Group, for $45m ($40.5m in cash and $4.5m in Hellaby shares) plus up to $6m in earnout in twelve months' time. It went unconditional and settled on 1 July 2016. In addition, Hellaby announced the conditional sale of the Equipment Group for $81m which is expected to settle in the first quarter of FY 2017, with a gain on sale of approximately $30m. None of this gain has been taken up in the financial year ended 30 June 2016.

The Automotive Group delivered a year-on-year increase with sales of $259.8m (FY 2015: $200.2m), Trading EBITDA of $26.8m (FY2015: $25.6m) and Trading EBIT of $24.5m (FY 2015: $23.9m). BNT, the Group's largest business, generated increased sales and earnings. Included in the result was a full year contribution from the JAS Oceania acquisition and a two-month contribution from PAT, both of which operate in the Australian auto-electrical market. Performance was affected by expensed investment into branch expansion in Australia and the launch of Truck and Trailer Parts. In addition, there was margin pressure from increased competition in the New Zealand auto-electrical market and slower trading as a result of the soft agricultural sector, as well as the impact of unfavourable foreign exchange movements.

The Resource Services Group was impacted by continuing volatile conditions in the international oil and gas sector which affected the timing of a number of shutdown contracts around the world. Overall, while second half earnings were an improvement on the first half, full year sales at $176.0m (FY 2015: $189.1m), Trading EBITDA of $11.0m (FY 2015: $18.5m) and Trading EBIT of $2.9m (FY 2015: $11.2m) were significantly down on the previous year.

Cost reduction and diversification strategies to smooth income in the Resource Services Group were implemented in the second half. The TBS Group acquisition introduces new services and will help diversify earnings and assist in the recovery of the Resource Services Group going forward.

The Footwear Group continued to struggle in a very soft and difficult retail environment with sales of $137.3m (FY 2015: $140.8m), Trading EBITDA of $4.3m (FY 2015: $5.8m) and Trading EBIT of $1.3m (FY 2015: $2.8m), all down on last year. Several cost savings were implemented across both businesses in the course of the year. Specialist retail consultants are expected to be appointed shortly to advise and implement a comprehensive restructure of the Footwear Group, with benefits expected from FY 2018 onwards. As a consequence, this Group has been removed from the sale process that was underway but remains non-core within the Hellaby portfolio.

The Equipment Group delivered year-on-year sales growth to $225.4m (FY 2015: $208.7m) but at reduced margins due to a change in the sales mix. As a result, Trading EBITDA was $12.9m (FY 2015: $14.0m) and Trading EBIT was $11.1m (FY 2015: $12.5m), both down on the last financial year. The conditional sale of this Group was announced in June 2016.

Outlook

With a clear new direction and a long term commitment to two core business Groups, profitable growth remains a priority. Hellaby will build scale, strengthen its services and expand its geographical footprint, while improving earnings and growing shareholder wealth. This will be achieved through both acquisition and organic expansion within each of its two core Groups.

Alan Clarke commented: "This has been a transition year as we enter a new chapter in the Hellaby story. We are excited about the future of our company and the opportunities available to us in our targeted markets.

"In Automotive, we have identified growth opportunities in the Australasian auto-electrical sector and we will evaluate other bolt-on acquisitions that complement our existing businesses.

"The Resource Services team will be integrating TBS Group and identifying synergies and opportunities across the two businesses. Continuing volatility in the oil and gas sector is impacting on our clients in this industry and we expect uncertainty and depressed earnings in Contract Resources' international businesses to continue in the near term. Management are focused on generating more stable earnings streams to balance our high margin but more volatile specialist refinery shutdown work."

Chairman Steve Smith said: "Hellaby is in excellent financial shape with a strong balance sheet and a clear strategy to support our future growth. The board constantly reviews our capital needs. The majority of the proceeds from the sale of the Equipment Group will effectively fund the acquisition of the TBS Group, and we have several other investments that we are actively considering. In that light, we are comfortable with our capital position. We are committed to delivering an improved performance in FY 2017."

Mr Smith also advised that long standing director Gary Mollard is retiring at the 2016 Annual Shareholders Meeting, and the board is well advanced on a search process to appoint two new directors before the end of 2016.

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Hellaby at a glance

Hellaby Holdings (NZX: HBY) is a long term committed business owner with a focus on businesses that provide innovative solutions in specialised industrial services sectors.

Our goal is to be a leading Australasian investment opportunity, based on the value we add to our portfolio, the returns we deliver to our shareholders and the calibre of our people.

Hellaby's core purpose is to generate long-term shareholder value by building better businesses. We achieve this through a combination of performance improvement and organic growth in the businesses we own, as well as smart acquisitions and divestments.

We have identified the Automotive and Resource Services sectors as our core focus, and also operate businesses in the Footwear market, which we have identified as non-core. Our 3,000 people span New Zealand, Australia, the Middle East and the Americas.

We have a decentralised business model, with Hellaby's head office providing strategic oversight and support for each business' talented and experienced business and technical teams.

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