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ASX ANNOUNCEMENT
SIMONDS GROUP FIRST HALF YEAR 2020 RESULTS

Simonds Group Limited (Simonds, Group or Company) (ASX: SIO), one of Australia's leading homebuilders, has today released its Appendix 4D Financial Report for the six months ended 31 December 2019 (1HFY20).

Simonds earned a net profit after tax (NPAT) of $4.1 million from continuing operations.

Results for the six months ended 31 December 2019:

	1HFY20 $ million	1HFY19 $ million
Revenue	$327.5	$351.4
Earnings before interest, depreciation and amortisation (EBITDA)[1]	$15.9	$12.4
Net Profit After Tax (NPAT) from continuing operations	$4.1	$6.5

1HFY20 HIGHLIGHTS

- Cashflows generated from operations of $22.7 million enabled the Group to repay its $5.0m Display Fund and reduce the Group's net indebtedness from $1.2 million at 30 June 2019 to a surplus of cash to debt of $13.2 million at 31 December 2019.
- Balance sheet strengthened, with the Group's net asset position improving from $11.4 million at 30 June 2019 to $15.1 million at 31 December 2019.
- 1,143 site starts for the period – 177 below the comparative period in 1HFY19.
- Revenue of $327.5 million – $23.9 million less than 1HFY19 due to lower site starts.
- EBITDA of $15.9 million – $3.5 million higher than 1HFY19 due to introduction of the new lease Accounting Standard offsetting the lower site starts.
- NPAT of $4.1 million – $2.4 million less than 1HFY19 due to the lower site starts.

[1] 1HFY20 EBITDA excludes the impact of leases capitalised in accordance with the requirements of AASB 16, resulting in $6.7m previously presented within EBITDA now reported within Depreciation & Amortisation (D&A) and Interest expense. Refer to appendix for further information on this change in accounting treatment.

1HFY20 OVERVIEW

Commenting on the Group results, Joint CEO and Managing Director Kelvin Ryan said:

> *"During 1HFY20 the Group increased cashflows, strengthened the balance sheet and continued to focus on improving operating performance through cost efficiency, increasing sales through displays and investment in developing new channels to market.*
>
> *Market confidence has improved post the May Federal Election as well as other positive changes introduced in the finance sector; however Simonds expects to see the downturn experienced by the residential housing market in 2019 to impact starts through calendar 2020."*

GROUP FINANCIAL RESULTS REPORTED FOR 1HFY20

Revenue for the period was $327.5 million, a decrease of $23.9 million (-6.8%) on 1HFY19.

EBITDA for the Group increased $3.5 million (+28.2%) on 1HFY19 despite the lower site starts. This was largely due to the impact of the new lease Accounting Standard, which resulted in lease costs previously recorded within EBITDA being accounted for as depreciation and amortisation (D&A), and interest expense.

Net cash flows for the Group of $4.6 million, an increase of $1.3 million or 40.0% on the prior comparative period, due to cash collections, and strong working capital management.

The key balance sheet movements during 1HFY20 were:

- The Group's net assets rose from $11.4 million at 30 June 2019 to $15.1 million at 31 December 2019 as a result of higher earnings, continued strong focus on cash controls and working capital management
- Cash and cash equivalents increased by $4.6 million
- Trade receivables and accrued revenue associated with work in progress decreased by $29.5 million whilst trade and other payables decreased by $21.3 million, predominantly due to movements in site starts and seasonality
- Inventories, which includes display homes under construction and available for sale as well as land holdings, increased by $1.4 million and
- Right-of-use assets relating to leasing of commercial offices, company vehicles, and display homes of $23.9 million and lease liabilities of $23.6 million have been recognised on the balance sheet in accordance with the new lease accounting standard

SIMONDS HOMES

Key Metrics

	1HFY20 $ million	1HFY19 $ million	Change
Site starts[1]	1,143	1,320	-13.4%
Revenue	$321.7	$346.1	-7.0%
EBITDA[2]	$14.6	$11.8	+23.7%
Total display homes	118	117	+1 displays

[1] Excludes any display or speculative home starts.
[2] EBITDA excludes the impact of leases capitalised in accordance with the requirements of AASB 16, resulting in $6.6m previously presented within EBITDA reported within D&A and Interest expense.

Revenue, earnings and margins in the Simonds Homes business were impacted by the market downturn experienced in 2019, with 177 less site starts than for the prior comparative period.

EBITDA for Simonds Homes increased $2.8 million (23.7%) on 1HFY19 largely due to the impact of the introduction of the new lease Accounting Standard which resulted in lease costs previously recorded within EBITDA being accounted for as D&A and interest expense. This has offset the impact of lower site starts.

BUILDERS ACADEMY AUSTRALIA (BAA)

Key Metrics

	1HFY20 $ million	1HFY19 $ million	Change
Revenue	$5.7m	$5.0m	+14.0%
EBITDA*	$1.2m	$0.5m	+140.0%

* EBITDA excludes the impact of leases capitalised in accordance with the requirements of AASB 16, resulting in $0.1m previously presented within EBITDA reported within D&A and Interest expense.

Revenue received by the BAA business increased $0.7 million (+14%) on 1HFY19 with higher enrolments and students studying under apprenticeship and traineeships doubling during the period.

BAA retained its existing State Government and Federal Government funding contracts as well as receiving approval to deliver 2 courses to international students under CRICOS (Commonwealth Register of Institutions and Courses for Overseas Students).

OUTLOOK AND FUTURE DEVELOPMENTS

The Group experienced a decline of 13.4% in starts recorded in first half FY20 which is in line with forecasts by key industry groups[1] in 2019 that new housing starts would decline by 10-15% in FY20.

Industry analysts have forecast an uplift in second half FY20, with key indicators for new housing growth including declining national unemployment rate (+0.5%), a growing population (+1.6%) and an increase in household weekly earnings (+2.7%).

The Group has invested in developing new sales channels which it expects will deliver profit improvement and cashflows in calendar year 2020.

DIVIDENDS

The Directors have determined that no dividend will be declared in relation to the six months ended 31 December 2019.

- ENDS -

For more information, please contact:

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Authorised for lodgement by Paul Taylor, Company Secretary & General Counsel.

[1] Decline in new, detached home approvals across the states Simonds Homes operates – Victoria, NSW, Queensland and South Australia – as forecast by industry groups HIA, BIS-Shrapnel and Master Builders Australia

Appendix: Disclosure of AASB 16 Leases impact:

Continuing operations: $m	Post AASB 16 31 Dec 2019	AASB 16 Impact	Pre AASB 16 31 Dec 2019	30 Jun 2019	31 Dec 2018	Pre AASB16 % change Dec on Dec
Revenue	327.5	-	327.5	687.7	351.4	-7%
Expenses[1]	(58.8)	(6.7)	(65.5)	(130.8)	(65.5)	0%
EBITDA	**15.9**	**(6.7)**	**9.1**	**23.2**	**12.4**	-27%
Depreciation and amortisation charges[2]	(8.8)	6.1	(2.7)	(4.8)	(2.3)	17%
Net Profit Before Interest & Tax	**7.1**	**(0.7)**	**6.4**	**18.4**	**10.1**	-37%
Interest expense[3]	(0.8)	0.4	(0.4)	(1.3)	(0.6)	-33%
Profit before Tax	**6.3**	**(0.3)**	**6.0**	**17.1**	**9.5**	-37%
Tax expense	(2.2)	2.3	0.1	(5.4)	(3.0)	-103%
Net Profit After Tax (NPAT)	**4.1**	**2.0**	**6.1**	**11.7**	**6.5**	-6%
Earnings per share (Basic cents)	2.8	(0.1)	4.2	8.2	4.6	-9%
Net tangible assets[4]	**(16.8)**	**21.1**	**4.3**	**5.0**	**0.7**	514%
Net tangible assets per share (cents)	(11.6)	14.6	3.0	3.5	0.5	500%
Cash flows from operating activities[5]	22.7	(6.7)	16.0	6.1	4.0	300%
Cash flows from financing activities	(13.8)	6.7	(7.1)	(0.2)	1.4	-607%
Net cash flows	**4.6**	**-**	**4.6**	**2.7**	**3.3**	39%

1. Expenses impacted by AASB 16 are lease for commercial offices, display homes, display home furniture and motor vehicles.
2. Straight-line depreciation of the right-of-use assets over life of leases mentioned above, commencing from 1 July 2019
3. Lease payments are discounted using incremental borrowing rate at AASB 16 transition date (1 July 2019) and rate implicit in the lease for leases commenced or renewed after 1 July 2019.
4. Net tangible assets (NTA) have been impacted by the recognition of a $21.1m lease liability, which has also impacted the calculation of NTA per share.
5. Cash flows from operating activities have been impacted by lease payments, previously reported in cash flows from operating activities, now reported in cash flows from financing activities.