



CAPRAL
ALUMINIUM

2020 Half Year Results Presentation

21 August 2020
Capral Limited (ASX:CAA)
Level 4, 60 Phillip Street
Parramatta NSW 2150

Approved and authorised by Capral's Board of Directors

Australia's leading supplier of aluminium products and solutions



5 Plants
8 Extrusion Presses



18 Distribution Centres
Australia-wide



Annual Extrusion Capacity
65k Tonnes



Annual Turnover
~\$420 million



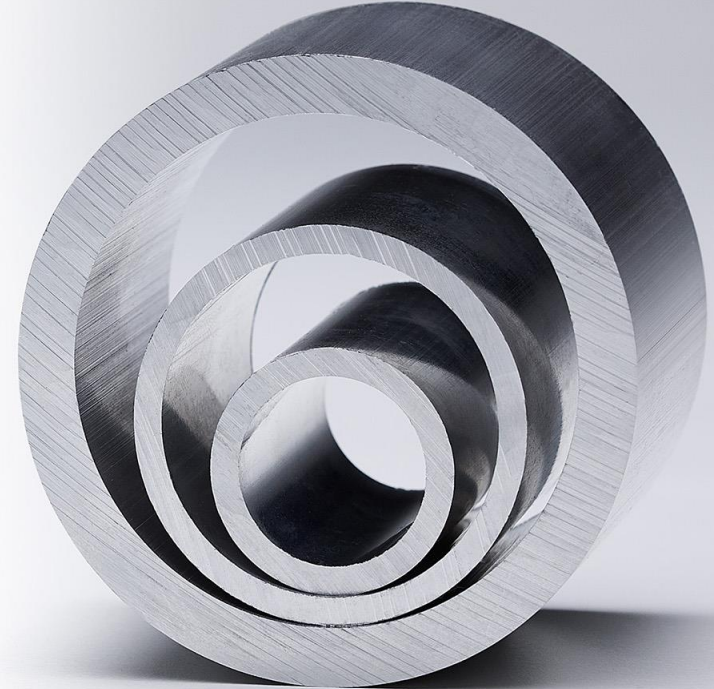
Residential & Commercial
Construction, Industrial



Employs around 850 people

AGENDA

- 1) 1H20 Highlights
- 2) 1H20 Financials
- 3) Strategy and Outlook
- 4) Questions



1H20 HIGHLIGHTS

“Excellent result against a backdrop of a slowdown in building activity exacerbated by the COVID-19 pandemic”

Tony Dragicevich, CEO & MD



1H20 Performance Highlights

- Half year result well above prior period and ahead of guidance provided in the 2019 Annual Report
 - Trading EBITDA¹ of \$10.2m (1H19: \$2.4m) and EBITDA¹ of \$17.0m (1H19: \$3.4m)
 - Net profit after tax of \$4.8m, a \$13.2m improvement on 1H19
 - Includes JobKeeper payments of \$4.4m
 - Volumes on par with prior period; solid first quarter, second quarter impacted by COVID
- Strong balance sheet with net cash of \$24.9m
- Bremer Park restructure delivered profit improvement of \$3.7m as planned
- Cost saving measures in response to COVID mitigated lower volumes in second quarter
- Qualified for JobKeeper in May allowing retention of all Capral jobs
- Increased market share against imports
- Safety - TRIFR² at 10.3 (FY19:12.0), improved 14%

Important Note

¹EBITDA is defined as Earnings before Interest, Tax, Depreciation and Amortisation and incorporates AASB16 impact. Trading EBITDA is presented with reference to the ASIC Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. Trading EBITDA is EBITDA adjusted for significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business. Capral believes that Trading EBITDA provides a better understanding of its financial performance and allows for a more relevant comparison of financial performance between financial periods. These items are LME and Premium revaluation, one-off and other restructuring related costs that are non-recurring in nature and including the depreciation and interest on Right of Use assets as proxy for rent.

²TRIFR is total reportable lost time and medically treated injuries per million work hours.



COVID Response Plan & Initiatives

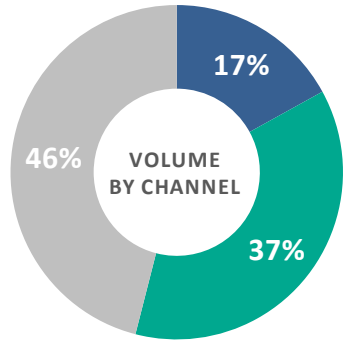
Capral operated throughout the period of COVID restrictions. Initiatives implemented to safeguard employees and business, included:

- Strict range of protocols for hygiene, cleaning and social distancing
- Business travel curtailed and restrictions imposed on visitor access to sites
- Work from home arrangements introduced for non-operational staff
- COVID risk plans for operating sites, including temperature testing and face masks at high risk sites
- Salaried staff remuneration reduced by 20% through reduced working hours and utilising paid or unpaid leave
- Directors' remuneration reduced by 25%
- Discretionary spending and non-essential capex deferred
- Based on reduced sales forecasts, applied for JobKeeper in May
- JobKeeper payments received for May and June totaling \$4.4m
- JobKeeper has allowed all Capral employees' jobs to be retained



Volume Breakdown

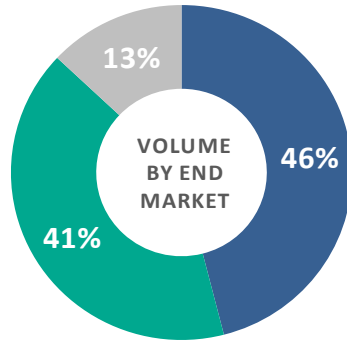
Channels to market



- Rolled aluminium (via DCs)
- Extruded aluminium (via DCs)
- Extruded aluminium (direct from mill)

Source: Capral
DC: Capral Distribution Centre

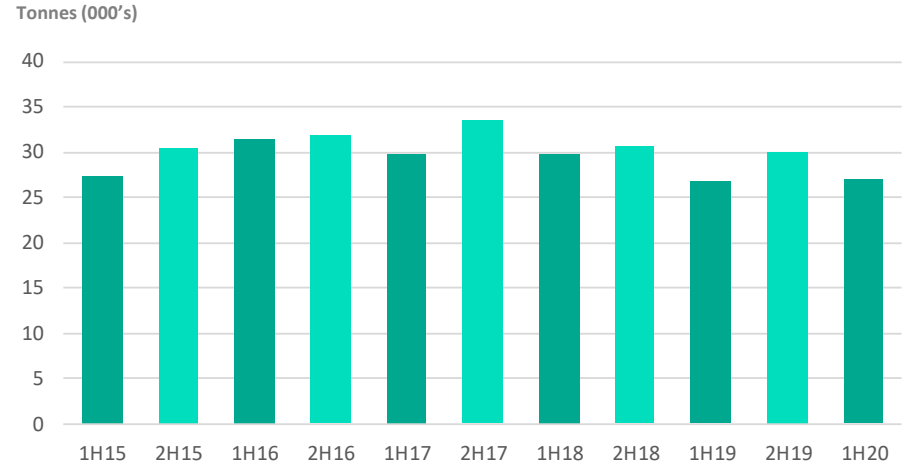
Diverse industry exposure



- Industrial
- Residential Building
- Commercial Building

* Residential building includes additions and alterations
** Industrial includes transport, marine and other manufacturing sectors

Volume Seasonality



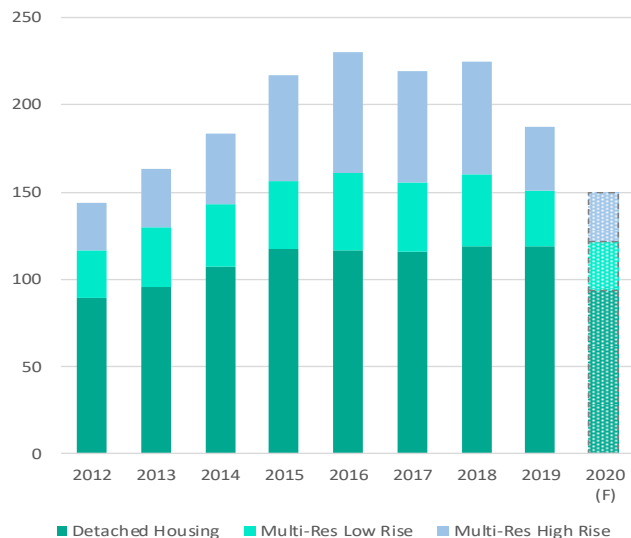
Source: Capral

- ~83% of total volume is Extrusion
- ~17% of total volume is Rolled (sheet & plate)

- 1H20 volume on par with 1H19
- First quarter volume solid
- April and May very soft due to COVID restrictions, June rebounded strongly

Residential Market Slow But Forecasts Improving

Annual Dwelling Commencements ('000)

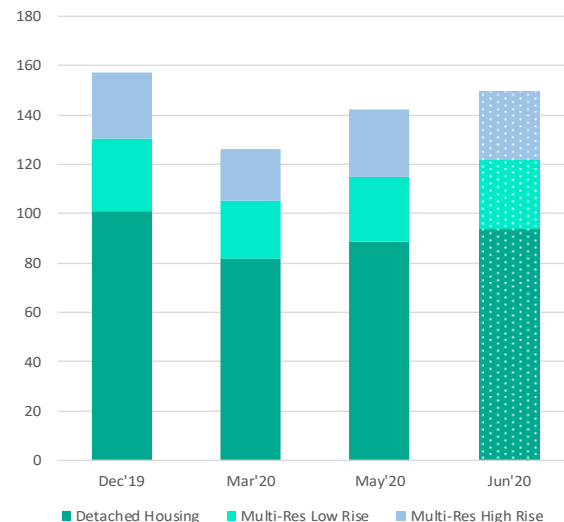


Source: BIS Oxford Economics (Jun 2020)

2020

- Capral's volume in the residential market is mainly aligned with Detached and Low-Rise Dwellings (shaded green in above graph)
- Residential commencements have declined significantly through 1H20
 - Latest estimate 150,000 starts for 2020
 - 20% decline on prior year
- Multi-Res High Rise forecasting the sharpest decline, 24% in 2020
- Multi-Res Low Rise forecast to decline 6% in 2020
- Detached Dwellings forecast to decline 21% in 2020, but positive signs as a result of Home Builder stimulus

2020 Dwelling Commencements Forecasts



Source: BIS Oxford Economics (Dec '19, Mar '20, May '20, Jun '20)

- Forecasts have improved as COVID restrictions eased
 - March 2020 forecast reduction of 33% (126,000 units)
 - May 2020 forecast reduction of 24% (142,000 units)
 - June 2020 reduction of 20% (150,000 units)

Future

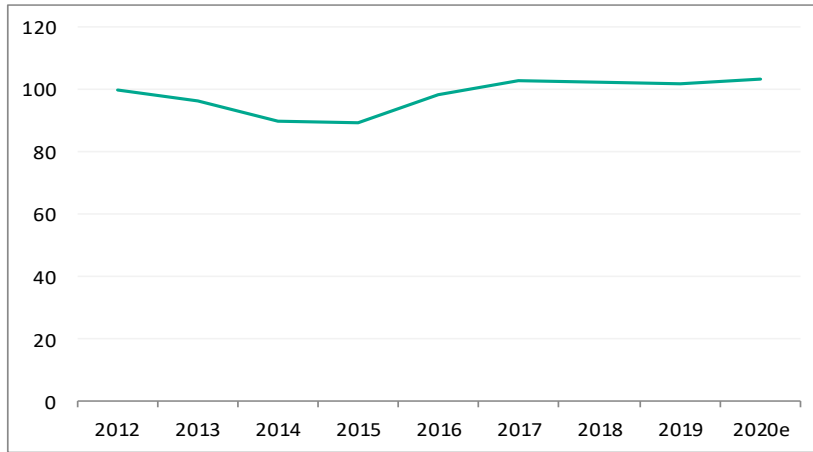
- Overall market is forecast to remain relatively flat during 2021 with growth expected in detached and low rise from mid 2021 onwards

Recent Capral Residential & Commercial Projects



Industrial Sector Steady

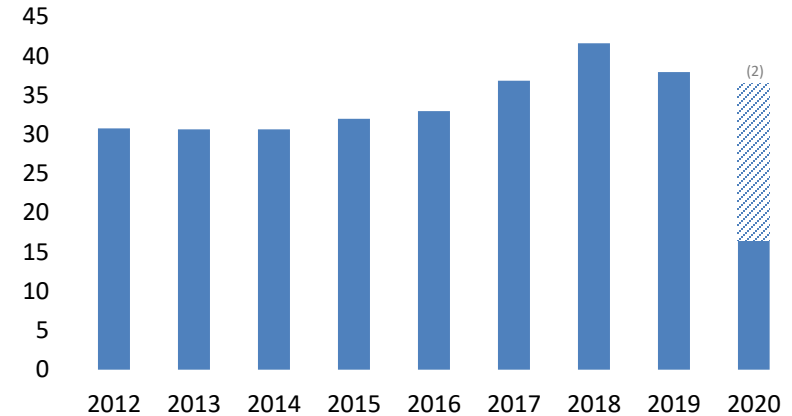
Total Capral Industrial Volumes (Index 2012)



Source: Capral

- Transport slowed, but positive signs for second half
- Manufacturing and general fabrication steady
- Defence sector continues to grow as projects commence
- Import replacement volumes due to Covid19 and Anti Dumping outcomes
- Solar rail and fencing sectors have shown strong growth replacing imports
- Extrusion imports fell 8% on 1H19
- Share growth against imports represents 7.5% of 1H20 extrusion volume, representing a 2% shift in market share
- Sales growth in NSW, QLD, VIC and SA

New Truck and Van Builds¹ ('000)



¹ Source: TIC (Truck Industry Council of Australia) (Prime Mover Magazine)

² Capral Forecast H2 2020

- First half builds down 13% on H1 2019
- June showed 14% growth on June 2019 due to instant asset tax write-off
- Government Stimulus - up to \$150k tax write-off for businesses under \$500m revenue extended until 31 December 2020

Recent Capral Industrial Projects

NSW Distribution Centre
Clenergy Solar Rail



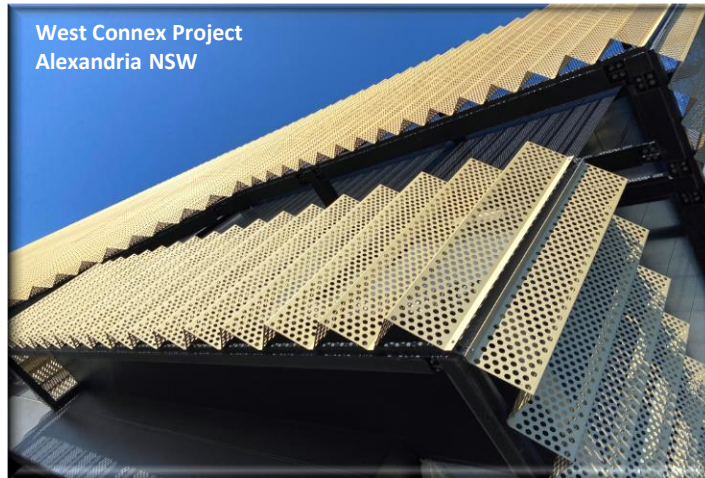
Anzac Class Mast Upgrades
Austal WA



Arends Trailers
Animal Transport SA



West Connex Project
Alexandria NSW



1H20 FINANCIALS

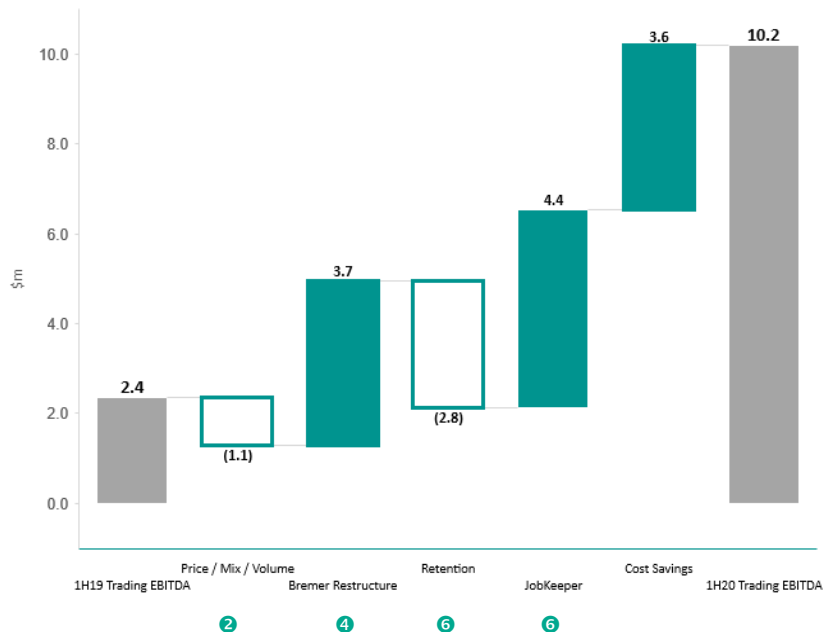
“Strict cost saving measures combined with benefits flowing from Bremer Park rationalisation deliver strong earnings growth”

Tertius Campbell, CFO



First Half Earnings Well Above Prior Period

- ❶ 1H20 Volume on par with prior year
- ❷ Sales revenue reduction driven by lower LME and securing import replacement volume at lower prices
- ❸ Margins continue to be under pressure due to imports and excess local capacity
- ❹ Bremer restructuring savings realised as planned
- ❺ LME revaluation due to lower LME (see slide 18)
- ❻ Cost to retain 20% of employees for May and June, subsidised by JobKeeper



		1H20	1H19
Sales Volume ('000 tonnes)	❶	26.8	26.8
		\$m	\$m
Sales Revenue	❷	195.6	201.2
Trading EBITDA¹	❸	10.2	2.4
Restructuring and one-off costs	❹	-	(6.4)
LME Revaluation	❺	(1.5)	(1.0)
AASB16 Lease cost reversal		8.2	8.4
EBITDA¹		17.0	3.4
Depreciation/Amortisation			
- Owned Assets		(2.9)	(2.8)
- Right of Use Assets		(6.2)	(6.4)
EBIT		7.9	(5.8)
Finance Cost			
- Working Capital facility		(0.7)	(0.6)
- Right of Use Leases		(2.4)	(2.0)
Profit (Loss) after tax		4.8	(8.4)
Earnings per Share		0.98 cents	(1.74) cents

¹See Important Note (page 5)

Stable Financial Position Despite Pandemic

- ❶ Inventory consists of raw material (billet) and finished goods (rolled product and extrusion). \$0.9m increase due to higher finished goods partly offset by lower LME
- ❷ Trade receivables are insured. DSO is consistently below 50 days
- ❸ Capral has a \$50m committed facility with ANZ, expiring April 2022 extended annually in July. Good liquidity maintained throughout COVID pandemic lockdown
- ❹ Liability includes lease liabilities of \$98.5m, consisting primarily of property leases as defined in AASB16. Net impact is a reduction in Net Assets of \$26.7m (FY19 \$27.7m)
- ❺ Non-Current Assets includes \$76.9m “right of use assets” as required by AASB16
- ❻ \$1m franking credits distributed as part of FY19 dividend payments in March 2020

BALANCE SHEET		JUN '20	DEC '19
		\$m	\$m
Current Assets			
Inventory	❶	79.9	78.9
Trade Receivables	❷	62.2	62.6
Net Cash and Equivalents	❸	24.9	17.9
Other		2.0	1.6
		<u>169.0</u>	<u>161.0</u>
Current Liabilities			
Trade Payables		(71.1)	(65.4)
Lease Liabilities	❹	(14.6)	(13.9)
Provisions and Other		(13.3)	(14.6)
		<u>(99.0)</u>	<u>(93.9)</u>
Net Current Assets		70.0	67.2
Non Current Assets	❺	114.9	120.6
Non Current Lease Liabilities	❹	(88.1)	(94.8)
Net Assets		<u>96.9</u>	<u>93.0</u>
Net Tangible Asset Value		93.4	89.7
NTA cents per share		18.9 c	18.5 c
Franking Credits	❻	18.0	19.0
Accumulated Unrecognised Tax Losses		291.3	296.7

Cash Generation Strong in First Half

- ① Working Capital reduction mainly driven by strong June debtor collections
- ② Operational interest charge slightly above 1H19
- ③ Maintenance capex is around \$3m per annum. Proceeds from sale in 1H19 relate to sale and lease back of plant and equipment
- ④ Dividend paid is net of Dividend Reinvestment Plan (DRP) activated for FY19 dividend. Participation rate in DRP was just over 50%
- ⑤ Bank Guarantees primarily used in respect of property leases
- ⑥ Trade Instruments mainly letters of credit in relation to import of rolled product
- ⑦ Trade/Other loans represent loan facility largely usage to fund on-going working capital needs. Maximum usage \$7.1m during 1H20 (1H19 \$10.2m)

CASH FLOW		1H20	1H19
		\$m	\$m
EBITDA		17.0	3.4
Working Capital	①	3.4	1.1
Finance Cost & Other	②	(2.8)	(2.5)
Operating Cash Flow		17.6	2.0
Capex Spend	③	(2.2)	(3.4)
Proceeds from sale/lease back	③	-	5.1
AASB16 Lease Principal payment		(7.2)	(7.8)
Free Cash Flow		8.2	(4.1)
Dividend Paid	④	(1.2)	(4.8)
Increase/(Decrease) in Net Cash		7.0	(8.9)

BANK FACILITY USAGE		1H20	1H19
		\$m	\$m
Bank Guarantees (at 30 June)	⑤	6.1	3.9
Trade Instruments (at 30 June)	⑥	22.2	24.2
Trade / Other loans (at 30 June)	⑦	-	-
Asset Finance Facility	③	2.3	5.0

NET CASH POSITION		1H20	1H19
Cash Balance at 30 June (in funds)		24.9	18.7

STRATEGY AND OUTLOOK

"Grow by strengthening Capral's offer to market and continue operational optimisation to improve Capral's long-term competitive position"

Tony Dragicevich, CEO & MD

BUILD

On our strengths

OPTIMISE

What we do

GROW

For the future



Improve Productivity and Competitiveness

Manufacturing	<p>Focus on delivering cost savings from recent automation and capex projects, and streamlining operations post restructure</p> <p>Selective maintenance capital spend to ensure on-going plant reliability and efficiency</p>
Distribution	<p>Improvements in market offer and service in our aluminium distribution business</p> <p>Long term goal to increase volume and profitability of Capral's direct distribution channel</p>
Market Development	<p>Solar</p> <p>The solar panel market in Australia is continuing to grow</p> <p>Anti-dumping measures have provided the opportunity for Capral to compete in the \$60m solar rail market</p> <p>Capral entered into a supply agreement with a large solar rail distributor</p> <p>Defence</p> <p>Capral is an approved supplier into all major defence contracts</p> <p>Currently supplying a number of projects with others in tender stage</p> <p>Cladding</p> <p>Fires have lead to the banning of certain composite panels. Over 1,000 buildings need cladding replaced and new buildings must meet new standards. Capral has signed an exclusive licence and supply agreement with Smartfix, a fully tested and certified solid aluminium cladding system patented in Australia</p>
Sales	<p>On-going investments in systems technology to improve sales effectiveness, including flexible interfaces with customer systems</p> <p>Expanding E-store to provide customers with more flexibility. On-line sales up over 250% on 1H19, off a low base</p> <p>New website launched: www.capral.com.au – awarded Silver medal in Melbourne Digital Design Awards</p> <p>New sales reporting and margin management tool implemented</p>

Key Industry Influencing Trends

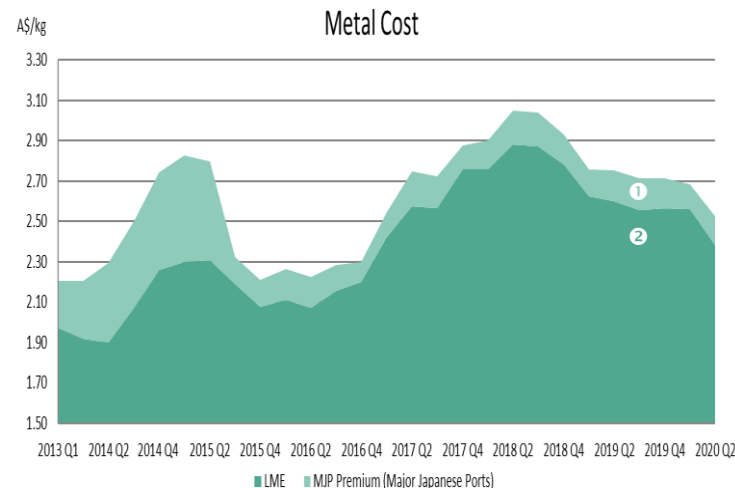
Anti-Dumping Activities

2010 to 2019	<ul style="list-style-type: none"> ▶ Original case won in 2010 with low level duties imposed on Chinese imports ▶ Reforms to federal legislation and methodology ▶ Measures imposed against all Vietnam and some Malaysian sourced extrusions ▶ Anti-circumvention / trans-shipment investigations finalised and measures implemented ▶ Variable Measures Review of China finalised with increased duties implemented
2020	<ul style="list-style-type: none"> ▶ Application made to extend Chinese duties for a further 5 years past October 2020 expiry. Statement of Essential Facts published July 2020 supports our position ▶ Three new cases focusing on Malaysia and Vietnam underway
Future	<ul style="list-style-type: none"> ▶ Monitor import activities and take action as required
Enforcement	<ul style="list-style-type: none"> ▶ Increased focus by Australian Border Force
Challenges	<ul style="list-style-type: none"> ▶ Limited information available on imports from ABS ▶ Trans-shipment continues to occur ▶ New import sources possibly dumping

Other

Manufacturing Australia	<ul style="list-style-type: none"> ▶ As one of the founding members of Manufacturing Australia, Capral continues to interact with government around strengthening the anti-dumping regime and monitoring circumvention
Australian Made Campaign	<ul style="list-style-type: none"> ▶ Intensification of campaign in the wake of the COVID pandemic, adding momentum to import replacement activities

Aluminium Price



Source: London Metals Exchange: Reuters

- 1 MJP premiums relatively stable since major fluctuations in 2013 – 2015
- 2 LME (in USD) declined 18% during 1H20, however a weaker AUD partially offset this decline resulting in 14% reduction in LME in AUD (from AU\$2,595/t to AU\$2,243/t)

OUTLOOK

- LME¹ is forecast to strengthen to pre-COVID levels through the remainder of 2020, after hitting four-year lows in May 2020
- AUD fell sharply end of first quarter, recovering to pre-COVID levels by July
- Residential commencements forecast to have bottomed during the second quarter. Outlook is improving with current expectation around 150,000 starts for 2020²
- Industrial sector anticipated to remain at current levels
- Capral continues to operate in Victoria during Stage 4 COVID restrictions and we do not expect a material impact on FY20 earnings
- Capral will continue to play a leading role in the pursuit of fair trade by:
 - Working with government to strengthen anti-dumping measures
 - Monitoring circumvention activities and prosecuting new cases as required
- Given the on-going uncertainty of the impact of the COVID pandemic during 2H20, and the potential positive impact of government stimulus packages, it is too early to accurately predict demand and results for 2H20
- The receipt of JobKeeper payments to September will ensure the continued employment of our workforce
- Absent unforeseen circumstances, Capral expects to be in a position to consider the payment of a final dividend relating to the FY20 year in-line with dividend policy. Any dividend would be from earnings that exclude JobKeeper

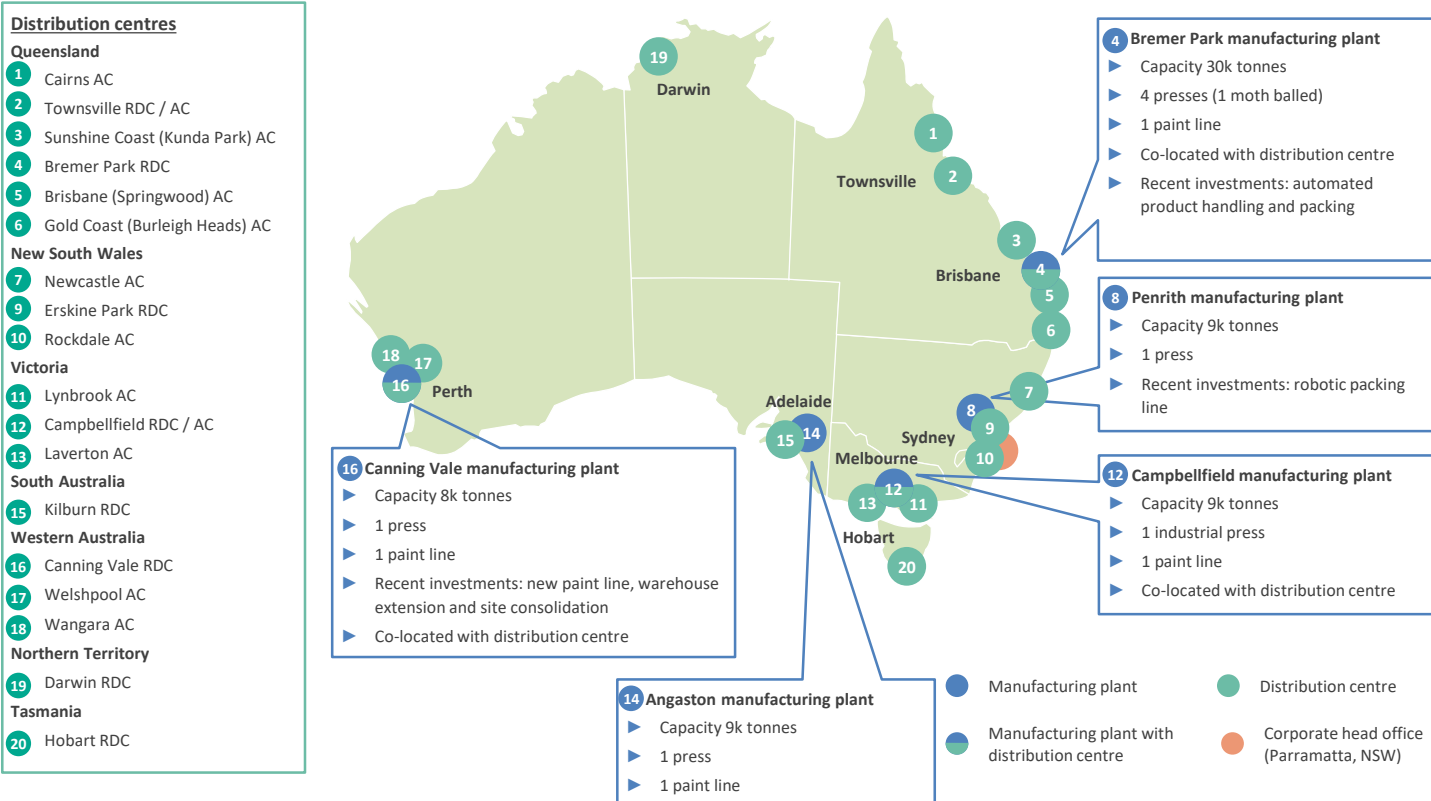
¹ Source: Harbor Aluminium Intelligence Unit

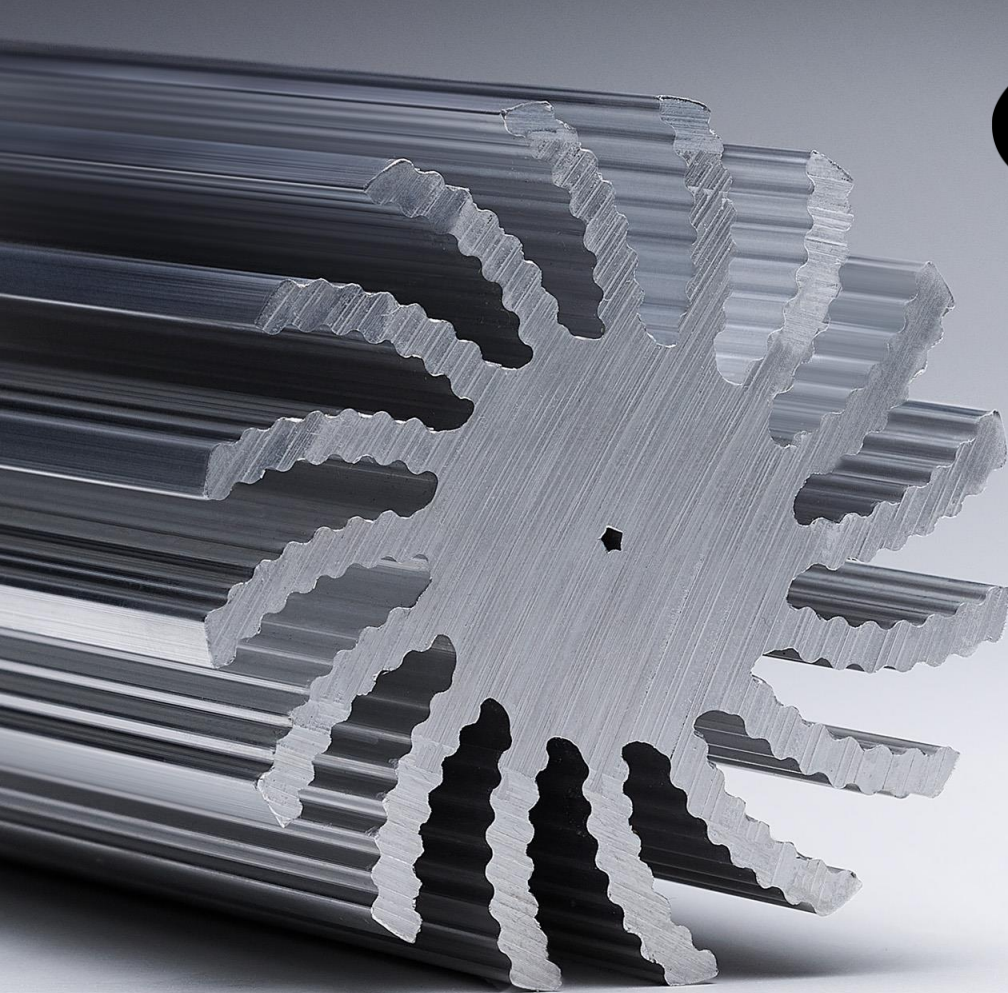
² Source: BIS Oxford Economics June 2020 forecast



Strategic National Footprint

Capral has a national footprint with a presence in every state and extrusion plants near five mainland capital cities





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QUESTIONS