

16 April 2019

Annual General Meeting – Chairman and Managing Director Addresses

CHAIRMAN'S REPORT

Financial Results

The Company recorded a Net Profit After Tax of \$6.4 million for the year ended 31 December 2018 (2017: \$12.1 million).

Increased sales revenues of \$455 million (2017: \$448 million) were achieved on volumes which were 4% lower than in 2017 as a consequence of higher selling prices due to substantially higher LME prices .

Unfortunately, this increase in revenues did not translate into higher earnings than 2017. At the operating level Capral delivered a Trading EBITDA¹ of \$14.3 million for the year (2017: \$18.4 million). Operating profit in the second half of the year was negatively impacted by the Company's inability to fully recover the increases in LME cost of aluminium billet, combined with lower volumes and suppressed selling prices as a result of a spike in low-priced imports.

During the second quarter LME prices rose sharply as a result of sanctions announced by the US government on Russia's Rusal, the world's second largest aluminium producer. This turmoil in global aluminium prices resulted in Capral recording a positive LME revaluation of \$0.8 million in the first half. The uncertainty over the Rusal sanctions and its impact on LME prices continued for most of the second half of 2018 as aluminium cost unfavourably impacted operating margins. The LME price began to fall meaningfully in the final months of 2018. Lower aluminium prices at the end of the year resulted in a negative LME revaluation for 2018 of \$1.2 million.

The US government also imposed additional tariffs on aluminium imports which had the impact of substantially increasing low-priced imports into Australia from China during the second half of the year. This increase in imports, together with slowing capacity utilisation amongst Australian extruders, continued to suppress selling prices and margins.

Management delivered cost savings and efficiencies which helped offset the impact of inflation on costs. Positive net operating cash flows resulted in year-end net cash on hand at \$27.6 million after total dividend payments of \$8.4 million during 2018, which includes the special dividend of 0.5 cents per ordinary share paid to shareholders in September 2018. Capral has a strong balance sheet, supported by a \$50 million facility with the ANZ which was extended during the year through to January 2020.

The major portion of the Company's \$10.4 million cash expenditure on capital items in 2018 is directed at productivity improvements. These capital investment projects in new technology and automation to improve Capral's long-term competitive position are on track and were mostly completed by late 2018. The Company is confident of realising the planned productivity and efficiency improvements arising from these investments over the coming years.

Capral Limited
ABN 78 004 213 692
ASX: CAA

Level 4, 60 Phillip St
Parramatta NSW 2150

PO Box 209,
Parramatta CBD BC
NSW 2124

T 02 8222 0112
F 02 8222 0130

www.capral.com.au

The solid residential building market enjoyed in 2016 to 2018 was anticipated to slow in 2019. In the first quarter this slowdown has been steeper than expected, although the larger portion of the decline is in high density dwellings. Capral expects the commercial and industrial markets to remain relatively firm. Whilst the impact of AASB16 lease accounting changes will have a positive impact on EBITDA, the 2019 first half volume and trading profit will be materially lower than prior period and Tony will expand on this shortly.

Capral continues its efforts to prevent the dumping of extruded aluminium by overseas manufacturers. It is important that meaningful sanctions are imposed against suppliers breaking Australian laws. With our industry's support, the Company will continue to monitor and pursue anti-dumping and circumvention cases to ensure that Australian manufacturers are competing in a fair market.

Safety

Capral has a strong focus on safety, and safety performance during 2018 was similar to last year. Capral continues to prioritise safety improvement through risk assessment, education and monitoring of the workplace.

Dividends

The Company has paid a fully franked final dividend of 1.0 cent per share, which represents 75% payout of Net Profit After Tax on 22 March 2019. This dividend is in addition to the special, fully franked dividend of 0.5 cents per share paid in September 2018.

I would like to thank all of Capral's employees, its customers, suppliers and other service providers, as well as our shareholders, for their commitment and support during the past year. I would also like to record my appreciation to my co-directors for their endeavours and continuing support.

Rex Wood-Ward

Chairman

* Trading EBITDA is the Statutory 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, and one-off costs relating to restructuring that are non-recurring in nature. Trading EBITDA is presented with reference to the Australian Securities and Investment Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011

MANAGING DIRECTOR'S ADDRESS

Financial Review

After a reasonably strong first half, the second half of 2018 saw volume decline 9% compared to the second half of 2017. Full year volume was 4% below last year. The residential market was steady at 220,900² starts. Commercial construction and key industrial markets were reasonably strong.

During 2018 international markets saw unprecedented trade action taken by the US government with the imposition of unilateral tariffs on steel and aluminium into the USA. This, combined with sanctions against Russia, created a volatile market for aluminium. The high LME had a material negative impact on margins as we were unable to fully recover the higher LME price from many customers in a timely manner. The high LME also weakened the impact of anti-dumping measures in place and we saw imports of extrusion rise substantially.

As a result, Capral delivered a lower profit in 2018, with a Trading EBITDA¹ of \$14.3 million (2017: \$18.4 million) on lower volumes. Statutory EBITDA of \$13.1 million (2017: \$18.8 million) included a negative LME revaluation of \$1.2 million, due to the fall in LME late in 2018. A net profit after tax of \$6.4 million (2017: \$12.1 million) was recorded and Capral paid a fully franked final dividend of 1.0 cent per share on 22 March 2019.

Key Initiatives and Strategies

During 2018 we invested in automation projects at our Bremer Park and Penrith plants. At our Canning Vale plant, we installed a new technology paint line and commenced the consolidation of our distribution warehouses in Perth onto the Canning Vale site.

The focus in 2019 will be to deliver the benefits of our capital investment initiatives and implement further cost improvement initiatives. We will continue to leverage our investment in digital technology to improve our sales effectiveness, and develop new products and services to grow market share.

Fair Trade

Capral continues to initiate cases against dumping and circumvention activities. During 2018 we experienced mixed outcomes.

- The case initiated against Thailand and two large Chinese exporters was terminated and no dumping measures were applied.
- The circumvention case initiated against the transshipment of Chinese extrusions through third party countries was successful.

Imports continue to suppress selling prices and injure local industry. It is important that local manufacturing industries continue to fight for Fair Trade. As a result of increasing Chinese imports, Capral requested a Ministerial review of China's dumping measures and this review was initiated in July. The preliminary findings are positive and, if they remain unchanged in the final report, should have a positive impact on volumes during the second half of 2019. The Minister is due to release the final report in May.

Safety

Capral continues to prioritise the safety of its people with an on-going focus on training, systems and culture and we remain committed to our **Safety First** Value. During 2018 Capral retained its Safety, Quality and Environmental management accreditations.

In 2019, Capral launched its Golden Safety Rules and will target improved safety outcomes.

Outlook

External forecasts for the residential market point to a slowdown in activity in 2019, with total commencements falling 24% to 167,300². The non-residential market is forecast to grow modestly and the industrial markets are expected to remain at current levels as infrastructure and defence projects continue to progress.

LME is not easy to predict given the influence of external factors. LME has fallen from its peak and external analysts forecast LME to remain within a downward trend during 2019. This will assist Capral's gross margins.

During the first quarter of 2019 Capral has experienced a faster and sharper slowdown in demand than originally forecast. Residential window fabricators are reporting much softer conditions and some key segments of the industrial market have been impacted by tightening credit supply. In addition, imports have gained market share. As a result, Capral's volumes have been below expectation.

Given the current volatility in key market segments and uncertainty surrounding the revised dumping measures on import volumes, it is difficult to forecast Capral's 2019 volume and profitability with a degree of certainty. Although Capral's 2019 Statutory EBITDA will be significantly higher than prior year due to the impact of AASB16 lease accounting changes, the 2019 first half volume and trading profit is likely to be materially lower than prior period. We do however expect a lift in volume as a result of anti-dumping outcomes and improved trading profit in the second half of 2019. Capral is unable to quantify the impact at this stage.

Given the soft market outlook, Capral has completed a review of its manufacturing capacity and a plan to restructure capacity closer to market demand is being finalised. This will result in a restructuring charge at half year.

The focus in 2019 will be to reduce costs relative to volume, enhance our service and quality, and generate savings from our key capital projects. This will help strengthen customer relationships, secure the future of our employees, and deliver returns to shareholders.

Tony Dragicevich

Managing Director

¹ Refer to Trading EBITDA explanation in footnote to Chairman's Report on page 2

² BIS Oxford Economics March 2019 forecast