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Operator: Welcome to the Metro Performance Glass 2018 Results and Strategy Briefing Call. I'll now hand over to Peter Griffiths to begin.

Peter Griffiths: Good morning everybody. For those of you who are on the webcast, the results presentation is being uploaded at the moment and should be visible shortly. Just to introduce myself, Peter Griffiths, I am Chair of the Metro Board. I've got John Fraser-Mackenzie, our Chief Financial Officer, and we have Andrew Paterson here as well. I'm sure you're all aware we don't have a CEO at the moment, so this address is going to be shared between myself and John. John's going to walk through the numbers and I will talk to the strategy piece and of course we'll take questions at the end.

If I just draw your attention to the disclaimer, it's at the front of the presentation, and I'll hand over to John to make a start.

John Fraser-Mackenzie: Thanks, Peter. I'd like to start with slide four and cover off the full year result highlights. So firstly just to comment up front, 2018 results incorporate a full 12 months of Australian Glass Group, whereas 2017 only included seven months as we acquired the business on 1 September in 2016. So our Group revenue grew to \$268 million, which is up 10% on the prior year, and this growth is due to Australian Glass Group as New Zealand revenue was flat on FY17. Our reported EBIT declined by 15% and reported net profit after tax declined by 16%. That result was impacted by an increase in significant items, which I'll talk to you later.

Pleasingly, we delivered strong operating cashflows of \$33.6 million and we were able to maintain our debt flat despite a capital program in excess of \$20 million, which has set us up well for the future. The company has declared a final dividend for the year of \$0.038 per share, which brings the total dividend for the year to \$0.074, and that's within our policy slightly below what had occurred in the prior year but it reflects our focus on debt management rather than any adverse view of our future.

Just covering off on slide six and seven, so our capital program was significant during the year and complicated in as far as it involved all of our sites, and many of the changes were interconnected. We were pleased with the delivery of the program in New Zealand, which was implemented on time and in budget. Inevitably the start-up has an impact on production and service levels but we quickly moved through the installation phase into

business as usual and we're now five months in and we're happy with all the gear that we bought and how it's running.

In Australia and more particularly Sydney our program did not go as well and this was exacerbated by delays in the arrival of some critical items and that pushed us beyond the Christmas shutdown period. As a result of the delays we lost revenue and incurred additional labour. We completed the final install in Sydney over the Easter weekend and all sites are now fully operational. I think it is worth noting the establishment of the Tasmanian plant, that went well, which was a greenfield factory, and that'll enable us to service existing customers better and also it's freed up our capacity in Victoria.

The program has provided significant capability enhancements and simplified our plants and given us better geographic alignment of equipment to where we see the market opportunities across the group. So if you go to slide eight which focuses on the group revenue. Firstly just to comment, the current year had five less trading days in the comparative period, so internally we do focus on daily sales. Our underlying sales performance we think was better than shown in the charts above, which is dollarized sales. From a channel perspective residential New Zealand was down 2% on the prior year and that was primarily driven by decline in Canterbury sales, but offset by growth in the North Island and also with commenting that regional South Island remained a strong market for us.

Commercial revenue declined to \$48.2 million but our profitability improved as business focused on projects that were better suited to us. Our forward book of commercial glazing work remains steady at \$28.3 million, I think in the half there was approximately \$30 million. Retrofits enjoyed another pleasing year of growth, so revenue's up 25% to \$21.5 million, so growth was particularly strong in the second half when the weather's warmer and it's traditionally not a strong sales period for us. But we increased our advertising across television and social media and we were more active in regional home shows, so we got higher leads received and we also had a higher conversion rate and that results in a stronger revenue performance.

In the Australian Glass Group revenue rose to \$55.4 million, so that's really reflecting a full 12-month contribution from AGG. Underlying performance in Victoria was strong with continued growth in sales of DGU as we increased production from our Victorian plant and sold them to a strong market. New South Wales revenue performance is disappointing in

the year and that was impacted by plant reliability issues prior to the capital program but also delays in the completion of the capital program, which as I say was finished only at the end of March 2018, so just finished.

Turning to slides nine and we'll cover 10. Just talking to significant items, as flagged at the beginning of the year we incurred pre-tax costs of \$2.9 million on CEO departure and recruitment costs in the year while in the prior year we had a significant item which is \$1 million of cost associated with the acquisition of AGG. So looking at the New Zealand segmental EBIT including significant items, that fell by \$2.7 million across the year with the majority of the decline occurring in the first half. So if we look at the EBIT bridge, so the EBIT bridge shows we had some pleasing improvement in underlying profit.

But this was offset by increased costs, some of which are non-recurring, and those costs include the \$1.2 million of consultancy costs and \$800,000 of higher electricity costs and additionally we had higher adverse impacts from factory labour, predominantly in the first half and South Island pricing which again was predominantly in the first half. So New Zealand business stabilised and was flat half and half in the second. AGG's EBIT before significant items at \$3.2 million and that was in line with the prior year. So with the additional five months of reported EBIT offset by lower revenue and profitability on our New South Wales business. The New South Wales result is driven by plant reliability and issues with the capital program.

Our AGG profit is also impacted by transitioning to a float glass import model, so we've established warehouses in Sydney and in Melbourne and this will deliver lower costs in the longer term but the gradual implementation of these during the year also has an impact on the current year's results. If we turn to slide 11, looking at highlights of the group cashflow and balance sheet. Operating cashflow improved on the back of better working capital management and lowered tax payments. As we discussed after the first half we did manage to reduce working capital on the back of improved inventory management and better management and also benefited from improved payment terms.

So pleasingly we were able to keep our net debt flat on the prior year while spending over \$20 million in capital, that was something that we set out to achieve at the beginning of the year. Just on our debt levels, our net debt to EBITDA is about 2.15 times and that's well below our covenants of three times and we also have significant additional headroom within our facilities. We have \$135 million of facilities which includes additional facilities

for guarantees and our debt sitting at \$95 million. Going through slides 13 and 14, I won't cover the market conditions in detail but would draw your attention to the shared chart on slide 13. This shows we've maintained our share for the last three halves, so this is our share of the quantity of flat glass bought into New Zealand, Metro's bought in between 59% and 60% over the last three halves.

We've maintained that on a rolling six-month basis, and that would be consistent with our sales view across the country, we've had some ups and downs, but we don't believe we've either lost or gained significant parts of share. So finally, before handing back to Peter, on slide 16 to talk to our guidance for the FY19 year, we've been a bit braver than we have been in the past and giving you some earlier guidance which I hope you'll all enjoy. In New Zealand we anticipate the markets to remain close to current levels, albeit with some regional variations, and that's obviously particularly around Christchurch and Canterbury. In Australia we still see opportunities for growth and believe we're well placed to build gradually through FY19.

So based on this view of the market we're targeting Group EBIT between \$30 million and \$33 million, anticipate spending approximately \$10 million of CapEx and our dividend policy will be maintained to result in repayment of between \$7 million dollars of debt over the course of the year.

With that I'll hand over to Peter to update on the strategic review.

Peter Griffiths: Thanks, John. I'm going to start at slide 18. Why conduct a strategic review at this time? Clearly our activity in the market had plateaued. Our execution was inconsistent, we had declining customer satisfaction and returns and targets weren't being achieved. So it felt a very good time to just reflect on why we're doing, what we're doing, where we're doing. Just moving on to slide 19 just to reflect a little on the journey, the company's grown strongly with the cycle. It's diversified its product range significantly, it's changed its service offering and it's changed its geographic positioning as well. It's converted all of its plants from large manual operations to automated operations, but it's added a lot of complexity to the challenges of managing the business and it compounded that by taking on the AGG opportunity at the time that it did.

If you just look again at slide 20 it's just a summary of the capital we used. We used our cash and debt to grow the business. I mentioned we've invested in a lot of modern equipment, we've added to the distribution network around the country by bolting on some

local businesses. Of course we bought AGG, but just to reinforce John's point, we're well within our facilities, we're well within our covenants but you should consider this peak debt for the company at the moment. The outcomes of our strategic review, we considered the purpose of the company and we still think our purpose is valid that we want to be a customer dedicated business that offers a differentiated service to the flat glass market in New Zealand.

We're going to shift from expansion and diversification and we're going to focus on optimisation and enhancement of our internal capacity. So on slide 21 you can see the four buckets of focus that we're going to take forward over the next 24 months and beyond. Again there's probably nothing deeply enlightening or deeply surprising in this, but execution is really the phase of it. So we're going to aim to be consistent and distinctive around our customer service, something that we're not at the moment. We're not distinctive and we're not consistent at the moment but we're aiming to achieve that. Our internal capabilities have not kept pace with the growth in sales and diverse products and diverse geographies that the company needs so we're going to need to build and retain and value the people in the organisation.

We have got a scale position and we're going to use that to good effect, both in our plants and our distribution system and in our branch operations. Our scale across the group gives us significant buying opportunities for raw glass and the furniture that goes with them and we're already leveraging that. We're going to look to leverage a lower cost position than we currently have and it's against our local competitors, so that's the fourth point. If we go to slide 22 there's more detail on those points and I'll leave you to read that but under point one, the trend is already apparent, we are recognising that we've got different customer groups that recognise service in a different way, they value it in a different way.

Getting material into your factory so you can assemble, getting glass onto your site so you can install it, or getting a retrofit unit into your house as a residential customer, your perception of service and delivery and full on time is different. We're still working through what a decent metric is for that, but DIFOT and something like a late tail has been used historically. I've just put the Highbrook numbers up there for you so that you can see this is an exemplar of the change. This trend is apparent across all our plants now and we're still working on getting a really effective metric that we can share outside the business.

We measure this activity with a vast range of metrics inside but none of them are really perfect or useful in my view as a group metric, so we're still working on that.

But I just put that one in there so that you can see there is some change and we're already on the journey and are delivering to our customers. Item two again is very obvious, our vacancy rates have been way too high and we're now focusing on recruitment, induction, recognising people's performance, rewarding them differently and hopefully retaining them so that we can build the deep expertise and capabilities that we need like production, distribution, sales, marketing. Just moving onto the next slide, slide 23, scale is important to us. John mentioned that we are retaining our share.

We're going to use that, we're going to continue to be the innovator around product, so changes in coating, different glass types, different product types. They should show up in the Metro catalogue before they show up in anyone else's. We're going to maintain our multiple channels to market, so we're still going to be very focused on window manufacturing, but we've got a built-out branch network now and we're seeing a retro business of scale. So we're going to stay and participate in all those at the moment. We're also going to stay in the geographies that we've identified. Again the slide on the bottom right there is just to show you the benefits of starting to diversify our revenue.

Traditionally we're very much in the blue bar windows and progressively we're building revenue of size in other channels. They are all on different cycles, different curves, so this is as well as the geography, the geographic spread this is starting to balance out for our exposure to cyclical changes. Moving onto slide 24, using scale to deliver our lowest comparative costs model is again a key focus for us. We often get asked or have been asked in the past where is the automation prize? How come it doesn't show up? That's why I put that slide up there, that shows you Australia and New Zealand comparative labour costs, and the difference is effectively the automation that's here in New Zealand that hasn't been in historically in Australia.

We see that as part of the prize, that's why we invested the money in Victoria, New South Wales and Tasmania. Scale will play a part in the way we go forward around manufacturing, but scale distribution is also key as well and we'll be looking to that in our branch operations. We think the network is built out, you'll see all of those branches as capable of delivering value to the business and we will continue to maintain that. Moving to the next slide, so what are you going to see over the next 24 months? An absolute

focus on service to our core customers, we will not be all things to all people which was the MPG mantra of the past. Not all volume is good volume, we're looking for customers who value our offering, they value the quality of what we make, which is very good. They value our warranty for it and they value the service that we are committing to deliver to them.

Those are the customers we are looking to establish long-term meaningful relationships with, that's not everybody in either of our markets. We're going to look to deeply embed the practice of a high-quality production culture, which we have germs of it, we can see it from time to time, we have great days, we have not great days. We need to become consistent on this, we've got excellent equipment now, we need to support people to operate it really, really well. The final point there is we're going to operate under a strict capital management program from now on. We generate strong cash, we're going to reduce our capital spend to close to maintenance levels, any investment in increased capacity is going to have to be very, very well worked through and have very prompt paybacks.

So you can expect to see our capital at around \$10 million a year going forward. We're going to really focus on inventory, and John already mentioned some of the early work on that. Purchasing as an Australasian player we are a scale buyer and recognised as such by the suppliers and we're looking to leverage that. We're going to get our group debt down from the peak debt I mentioned and John indicated this year's challenge is to get somewhere between \$7 million and \$10 million, we'd be happier at the higher end of that number down progressively over the next three years or so that we get our debt to a debt ratio closer to the 1.5 level than the high twos.

Just moving onto I think it's the final slide, slide 26. Clearly there's been some changes around the Board table, I've reduced the size of the Board by one. We've onboarded one new director recently and Angela Bull joined the Board some months ago. Nigel has left the company, he's also resigned as a Director obviously. Our new CEO won't be a Director of the company, they will focus absolutely on the role of the CEO. I've rejigged the Board committees and you can see they're there. The company's currently being led well by the Senior Leadership Team under John's guidance and over the last six weeks we've been very, very comfortable and confident of the way we're running the business and we can see that progressing over the next weeks.

We are in the search for a new CEO. Nigel left at the end of March. Our search has been wide and extensive, we've looked in New Zealand, Australia and further afield. We've had long lists of potential candidates and we've interviewed a number. But we're searching against a very specific set of criteria and we're being very particular about that. We're looking for a real people leader, we're looking for somebody with expertise in manufacturing and we're looking for someone who can get really, really passionate about Metro Glass. We don't resile from the fact that it's taking us some time.

We are making progress, real progress on this and when we're in the position to make an announcement we will. So I think that brings me to the end of the slides. We are open for questions. I'm going to give all of the number ones to John and I'll take the rest of them.

Unidentified Male: Firstly just in Australia the gross margin was clearly very disappointing in FY18 compared to in the half year '17. You talked about some of the issues you obviously experienced towards the end of the year, can you just – I mean if you're looking to grow share on the capacity gains that you've put in in Australia but in a softening market, can you just talk about how you're going to manage that revenue growth due to this margin improvement in Australia and how we should think about margins here in Australia?

John Fraser-Mackenzie: So how we see gross profits changing in Australia in the future and particularly under the growth scenario. So looking back at this year I think and again Victoria has been a good business for us, has grown and are performing well. I think with a slight caveat on Victoria of where they haven't really generated operating leverage, so they've probably grown labour as quickly as revenue. So can do better and will do better. New South Wales was particularly disappointing in as far as their revenue declined and their labour went up and additionally the amount of materials they used was higher on account of reliability issues. So there was a lot of glass processing waste that we had through the year.

We would call that at the bottom and post the capital program again, particularly in New South Wales we've significantly reset the factory totally and it's a different business to how it was prior to December. Over time we will see both of those businesses getting better on their labour utilisation and we've got the chart in there showing they're up 30%, that's way too high. They will get better on their labour utilisation, they will have a better year this year again in New South Wales on their material usage and over time as scale comes we'll

get increasing benefits from running our own import model. So we would see the gross profit improving, the gross profit percentage improving, it shouldn't be at this level.

Unidentified Male: Closer to the '17 levels?

John Fraser-Mackenzie: Yes, we should get back to '17 levels, I think it'll get back there. So part of the issue in New South Wales has kind of dropped a bit subscale, so we need them to grow back again. We're changing them out of a processed toughened glass business into a DGU business, which is where we see the future, so we're in a bit of a state of flux as we work to through that. So we should be getting back to FY17 year levels as we come through. One dilutionary impact on that is Tasmania, as it is a start-up, so again it's subscale as it is today but we do have strong confidence that we'll be able to grow the business and it'll pay off as the revenue picks up.

Unidentified Male: Just on the guidance of \$33 million, I'm just keen to understand the consistency of that guidance with some of your comments around the outlook statement. So talk about conditions outlook remains pretty solid in New Zealand, growth opportunities in Australia and what appear to be some margin expansion opportunities out of the strategy reset and the improvements here in New Zealand. Are you suggesting in that guidance that that guidance is consistent with each of those metrics, or have you been a little bit more conservative in your guidance because there seems to be an inconsistency there.

Peter Griffiths: I'll have a go at that one. We talked about Australia and the start-up and the growth curves that we're expecting from them. I would say we've been quite conservative in that in that again we perhaps have a bit of a reputation for promising long and delivering short. We're trying to promise and deliver to the right number. So there is a bit of that effect at the group level. We're still working with a set of assumptions around okay we see this at a macro level in terms of market performance but we've clearly got different things going on in New Zealand. Auckland is strong but flattish, the central part of New Zealand is going very well, the southern part is going reasonably well as an island but we've got a softening performance in Christchurch.

So we're trying to make adjustments and assessments for all of those things as well as the one-off recurring non-recurring costs, how do we push those away and what do we capture as a prize in terms of efficiency? So it's an amalgam of all of those that ends up in this

Group number number. So it's not quite I guess the answer you were looking for. John, do you have more to add?

John Fraser-Mackenzie: No, just for me I guess increase in depreciation is something to bear in mind. So we spent \$20 million so we'll probably have \$2 million to \$2.5 million increase in depreciation, it's broadly offset some of the one-offs. I think the other thing we are anticipating some headwinds on labour cost, particularly with a move in the minimum wage and in addition to that the fact that we're very focused on getting our turnover and absenteeism down. So we are anticipating some of that and dare I say to Peter next to me, increase in fuel prices, so I think we're also anticipating some of that.

Peter Griffiths: Certainly in the Auckland market.

John Fraser-Mackenzie: There are some headwinds and as Peter said, we don't want to disappoint so it is somewhat conservative, and we'll update you as we go through the year.

Unidentified Male: Just two very quick final questions just on Australia, are you happy that you have the right people in the business? Secondly on the outlook in New Zealand, the market share is holding and that you see fighting opportunities to, particularly with some of those increased costs factors we're seeing, in this environment how likely are you to take a price leadership role?

John Fraser-Mackenzie: Yes, so I'll talk to price. We increased the price on 1 December this year approximately 3% and that was across residential, a lot of the commercial is quoted work so it doesn't follow the same so that was across the residential part of the business. Our competitors didn't follow with a lead price increase so they did tweak some of their pricing around some of the services, be it delivery costs or glazing services so they've moved a bit. There has been a bit of talk of price increases in the market, but we haven't seen it yet. One thing that will change in the year is aluminium is obviously going up a lot, so the total window price is going to go up and we think that'll be an opportunity for price movements within the broader window package. Obviously with the exchange rate looking to drop back down again there will be some movement.

We did increase our price, some of that only came into effect from 1 April because we have annual agreements around group home builders, but we haven't got as much of it as we would have liked. But we do see that we're probably moving into quite a favourable price

environment with wages, with fuel, with aluminium and exchange rates. So we haven't included any assumption on that in our guidance note but we'll be watching to see how we go. I think the other bit to add on prices is why did not competitors follow, especially if you follow the Viridian result and things, so I think part of their challenge is we don't believe our competitors are achieving a sufficient service level to get one away.

We acknowledge very openly we haven't been where we need to be but I think that that's part of their challenge, I think they're all working to improve their service level and we think they'll all be looking at price in the year.

Peter Griffiths: Just to answer the question on Australia, we've had vacancies in Australia that we're recruiting into right now, so we're still on the journey of building up the management team there. We've made some changes within the organisation moving people from one role to another as well to get a better fit. So we're not complete on that journey yet.

Unidentified Male: Just one quick question on the differential of labour as a percentage of revenue across New Zealand or Australia, you mentioned that this is partially due to the automation you've done in New Zealand, so I wondered if you could give us any metric that doesn't include these savings, pricing power and the different labour costs. So something like the labour hours per square metre or labour hours per window or anything you see fit, so that a geek like me can report on those.

John Fraser-Mackenzie: Just one comment on the pricing part. Prices in Australia are very similar to New Zealand on your average DGU, so \$100 a square metre in rough numbers that's New Zealand, that's Australia. So the pricing is very similar in that respect but you're right around mix of products and things can make a significant difference. So we would be better in New Zealand on a kilograms per man hour or metre squared per man hour than they are in Australia, so there's definitely more efficiency here. Then again even within Australia if you look at Victoria which has much more scale and is better set up, they will be considerably better than New South Wales, and obviously Tassie is a kind of greenfield. But New Zealand would be better, we'll look to see what metrics we put up in there.

Unidentified Male: Is the gap as large as that shown on the slide?

John Fraser-Mackenzie: It wouldn't be as marked on productivity.

Unidentified Male: Secondly just on your outlook, I appreciate you're in the process of recruiting a CEO and you want to leave wiggle room there et cetera, but should we expect, you've had a big investment year that you're delivering now with targets et cetera, should we expect to be seeing something around return on capital, margin profile, productivity, anything slightly more meaty? Or is this it?

Peter Griffiths: This is a change for this company putting out any numbers this early in the year.

Unidentified Male: There aren't any numbers at all, just some macro targets?

Peter Griffiths: I think you can expect as we get into the ASM and the half year and so on you'll see more data points appear as I guess we internalise, standardise and get comfortable that they are in fact real and correct and sustainable and affordable here. So we're on a bit of a journey there. Sorry to disappoint you at the moment but you have no idea how difficult it was to get to this point today.

Unidentified Male: Peter could you just, or John, comment on what sort of investment capability required to achieve the strategic objectives and capability and operating costs?

Peter Griffiths: In additional costs? John do you want to go first?

John Fraser-Mackenzie: I'll talk to the capability and the people, it's kind of my favour subject. I think looking back we have had very high turnover and I think we probably haven't been alone in that. But I think if you consider that at times we're running the plant almost as a start-up for arguably 30% or 40% of guys who joined within the last year and it makes it a real challenge. So what we're doing around capability is we've got a real focus on recruiting the right people at the start, we are spending a lot more time inducting them, so we've developed a very thorough induction program to get them in.

We've got an ongoing program increasing the training and development opportunities, particularly for guys on the floor and also on the field of glaziers because that's come up in some of our reviews around why people leave, because they don't see the opportunity to develop and grow themselves. So we've got a huge focus on that and I'm going through. We're also focused on recognition and improve recognition and performance management, whether that's good or bad. We haven't been good enough at recognising either ends of the spectrum in the past and so we are going to reinforce the good behaviour and not tolerate the bad behaviour and we've started on that already.

I think in terms of capability, and it came out of the PIP review that we did focussed on Highbrook. Across our factories, we haven't had an adequate level of supervision. So if we were to track going out of the morning shift all through the night we would see definite drop offs depending on the level of supervision that we've had, so we've invested more in supervision and that will come through in the year. We believe or we're confident over time that'll improve a whole lot of different metrics, they will drop out the bottom. Although to Aaron's question we're not promising any of that now but we're confident that they will improve.

We're spending time and money on business systems that help make us better, whether it's planning how we do our production in the factory, which previously we haven't had very good software, so we've got much better planning tools, we'll have much better tools around ensuring the accuracy, we have better tools around retrofit, we'll have a bunch of better systems and business processes that'll help us be better on that. So one of our key things is to stem the tide of people leaving the business and make sure we've got people in there who stay and know what they're doing. So a really big focus on getting in good people, retaining them, training them, promoting them, incentivising them but at the same time not being prepared to accept what we shouldn't accept.

Peter Griffiths: Just to add to that, capital investment that we think we need for assistance is inside our numbers here, so we don't have a big ERP type challenge in front of us. We expect a trade-off between overtime absentee call-back type. Some costs will get transferred to other places but we're not seeing we're going to have to increase our OpEx costs significantly to maintain capability, we need to just transfer numbers between places. That's our goal, so in terms of investment dollars they're either within our OpEx numbers or CapEx numbers, it's going to be focused on execution of how we do things and where we spend our time, that's where the real investment is. Any other questions from in the room?

Unidentified Male: Can I just pick up something? You talked about focusing on good volume. How do you know what good volume is, have you've got the systems to do this?

Peter Griffiths: We have got customers and we are in the process of, shall we say, looking at the performance and criteria of the customer sets we've got. Just to speak hypothetically, so I'm not referring to anybody particularly. We have great capacity and we can do quite typical products. We would look at the customers they had. We only seem to

get the hard stuff from this particular customer and we don't seem to get the rest of their operation.

What's our attitude to that person, what's our pricing process, where do we put them in terms of our manufacturing schedule, do we do the business with them at all? That's an example of good volume, bad volume, and we are looking at all of our customer base that way. We are going through our product mix and looking at the number of processes we have to do to create that product and are we in fact understanding the costs that go with all of those processes and do they land in the cost of that product? So, we have that system underway at the moment as well.

Unidentified Male: Underway? You can do it?

Peter Griffiths: Well, we can do it. Can we do it to my satisfaction and to John's satisfaction all the time every day? No, we can't, but that's part of our system investment. We are going through and are we losing any money on any particular product right now? No. We know that.

Unidentified Male: So, why do you think you get the - you just said one example there. Why do you think you get more complex product, do other competitors have lower cost structures for simple product?

Peter Griffiths: I don't think anybody has got a better cost structure than us, actually, but there are people with different marketing strategies than us. We have annoyed a lot of our customers by our poor service and they've gone to try someone else, but that person can't deliver everything they need so they come back to us with a bit that they cannot get anywhere else. That's the way it is.

Other people have, shall we say, strategic and commercial relationships that will guide and direct them to purchase off others. We're not oblivious to those things. We are the guys who can make a lot of windows every day everywhere and that they are a very good quality and we will stand by our warranty. That does make us a little distinct from some of the other options people have, and we just want to make sure that people understand.

Unidentified Male: One further one. It just feels as though you've gone a long way with this strategy. You're then going to appoint a new CEO, who presumably will want some input into that?

Peter Griffiths: You might imagine that that's some of the conversations we're having with our potential candidates right now.

Unidentified Male: So, the strategy might change?

Peter Griffiths: We don't think - no. We're not expecting it to. We don't see there is a better option or alternative than this otherwise we'd be executing it now ourselves. That's part of our conversation with potential candidates. So, no, we don't expect our four buckets to change materially. Do we imagine people will have different views around execution and timing, pace, direction, structure? Absolutely. That's the...

Unidentified Male: I only raised it because we often as investors look at businesses, and new EO's have a habit of throwing out the strategy, and there are plenty of examples. So do you want us to take this strategy away, as it means something?, or what?

Peter Griffiths: I wouldn't be wasting your time by talking to you about it if I didn't think it meant something.

Unidentified Male: I'm sure you wouldn't Peter, just making sure I understand.

Peter Griffiths: We're not looking for a CEO to capsize the business and turn it into something else. So, I'll leave it at that.

Unidentified Male: That's all right. Just looking at the capital, you said we've a got strict capital allocation program I think were the words that you used. The Board's fairly much the same, there's been a few changes, and you've had a capital allocation program before. So, what's the difference between the capital allocation program you've had before and the capital allocation program that you've got now? Explain the difference and why it's changed?

Peter Griffiths: My background comes from an absolute very rigorous process where you absolutely scrub a capital investment to understand its value, yield, return and so on. We're going to be emphasising and being absolutely rigorous about that. Shall I say in the past that perhaps that rigour wasn't quite as intense it could be; the people in the conversation were different from what we have going forward. Mind you though, I'm kind of ducking that one a little bit but I'm just - but, yes.

Unidentified Male: Are there any metrics you can give us around that? For example, do you have a - I don't know, a pay-back period? With the capital you spend there's different types of capital, maintenance and growth etc. Do you have a structure around payback?

I'm not trying to put words in your mouth, I'm trying to work out what's changed. You're just saying well, I've changing some people and it will change.

Peter Griffiths: John, do you want to speak a little bit about a capital process that we - for new investment, yes, clearly there are different types of capital and we recognise that. Investments that give you greater capacity, the most precious of capital that is going to grow returns, you need to really focus on that and truly understand it. That capital is - you really need to spend that. That's the number, that's the equipment, that's the process. We will be much more focused and much more controlled around that. We put limits on the total capital spend. We are controlling the budget more, shall we say, with a different rigour than the past, yes. That's about as far as I want to speak about that, I think.

Unidentified Male: On your DIFOT, sorry I'm asking so many questions. DIFOT before wasn't a great measure. I think you guys thought it was a hopeless measure, so do you think you've got the right measures now?

Peter Griffiths: No, we - I think I said we don't think we have the right measure. The customer satisfaction measure is what the actual consumer feels and what he thinks he contracted for and what sort of deal he got. DIFOT only measures a little part of that, so you can go DIFOT plus delivery. There's something else and we haven't quite got it to the level that I'm satisfied that this is the number we should share with everybody and hold ourselves accountable to publicly, because it varies per segment, and we're working on that. DIFOT plus late tail is not a bad proxy; it's most of it but it's not all of it.

John Fraser-Mackenzie: I think also everyone measures DIFOT differently. We have a very rigorous measure of DIFOT and you put in the order and if you deliver within the 48-hour window plus or minus 12 hours, that you hit it, or you don't. Or others within the industry in our Australian business it would be the same, you'd take an order, phone them back at the end of the day and you say I can deliver in six days' time, lock that in, you deliver in six days' time and you give yourself a tick.

Somebody might say we're at 99%, aren't we wonderful, yes, but that was seven days later. We have a more rigorous way we measure internally. Even though some of the customers might have said yes, we want your glass for the gorilla enclosure and that's going to take a week, but it still falls in a very rigorous, systematic thing, which is why we're developing different metrics to give more of a broader sense of experience.

Unidentified Male: To clarify that, previously DIFOT was your definition of on time, which was order receipt plus two days?

John Fraser-Mackenzie: Yes, 48 hours generally, yes.

Unidentified Male: Regardless of what the order was?

John Fraser-Mackenzie: Yes.

Peter Griffiths: One or a house lot. Any other questions in the room?

Unidentified Male: You've touched on a couple of things around competition around market share and pricing. Just to be clear, are there any changes in competitive dynamics at the moment which are notable? Understand there have been a few customer changes across the market.

John Fraser-Mackenzie: Nothing significant, Matt. There is - it's interesting the glass industry is all full of intrigue and speculation and things, it's all good fun, actually. So, nothing that we're aware of. There's the Glass Team, obviously, who put themselves up and running relatively well, albeit I think they are struggling at present. We keep an eye on them and what they're doing but we aren't seeing any dramatic change in strategy or intent from them.

Viridian, again not much change. We think that the theme for them seems to be rationalisation and consolidation, particularly in Australia, and we thinking they might to be bit of that in New Zealand, so they've got the plant in Nelson, for example, so we hear that may be on the block, nothing significant there.

Stake Glass is up and running in Christchurch, varied feedback on how all that's going. Hagley Aluminium have always been in glass and there was a bit of trumpeting a year or so ago when he moved into a new facility, so he's combined his fabrication and his glass business so he's still doing his thing. He's someone we watch because I guess if he manages to get other fabricators to come in with him then he'll get stronger, but he competes with some of those fabricators so he's a bit strategically challenged with that.

Glass Relate are part of a vertically integrated group. They've had some changes in as far as they've been buying some fabricators in the South Island whereas before they would run more of a franchise model like at APL would. We're not clear whether buying those fabricators are out of necessity because no one else would and they risked losing that volume or whether it's a strategy to move further down the channel. They seem to be

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investing more in fabrication and buying up some of their franchisees rather than glass. So, nothing that we see at present.

We remain surprised given the relative strength of the Upper North Island market that there hasn't been more activity. We feel that you'd have more guys taking a crack, the see our numbers which are albeit not stellar, do deliver a strong return. You look at what it cost to get in there and you'd think others may want to have a crack, so we are conscious that guys may come in and give it a go, but none that we know of at present.

Peter Griffiths: But if you know anything, we'd love to hear about it.

Unidentified Male: If I could just ask, the new CEO package. Has this package been designed so that the CEO if he doesn't deliver gets another \$2 million or \$3 million when he leaves? Is that the way we should be looking at it? How are you thinking about designing it this time?

Peter Griffiths: We'll announce that when we have a CEO and a package to talk about.

Unidentified Male: So, you've got no framework at the moment?

Peter Griffiths: I'm not saying that, I just said we'll announce it at the right time.

Any other questions from - Chris.

Unidentified Male: Just on the – its always a slightly uncomfortable time when there is no CEO, so for the purposes of what John was saying. Could you just give me - I understand the management are doing a good job, could you give us some colour around how much time the Board is spending within the business in the interim period?

Peter Griffiths: Yes. The question was in the absence of the CEO, and I'll try and summarise it, how much time is the Board spending in the business? Now, I personally, I'm one to two days a week in the business. I've been - I'm in Australia every month with one or two of my colleagues, so we have a monthly engagement with the team. The last - we were in Sydney last week?

John Fraser-Mackenzie: Last week, yes.

Unidentified Company Representative: Yes, with - that aligns usually with the management, senior management team also being there. I'm visiting other branches pretty much one every week or few days to keep my hand on it. A number of other Directors are also a little closer than they would be typically and I'm part of the weekly

management call that John has with the expanded leadership team, and I'm really not there to participate but just to hear what's going on and to answer any questions that are reflected up to the Board.

So, that's about the level that we're operating at, at the moment, Chris. It's working - it is an extra impost on the Board, but the governance to management line is probably wider and a bit fuzzier than it would be typically, but we're mindful of that. I really can't stress how, yes, they are perhaps the same people, or a large group of them are the same people that were there before, but they are in a different context, different environment and we're noticing a material change in the way people show up to do their work. So, I'm personally very comfortable that we can manage this transition in that format. Any other questions from inside the room? If not, we'll go to the phones. Are there any questions from anybody online?

Operator: If you'd like to ask a question on the phone, please press star followed by the number 1 on your telephone keypad. Please make sure your mute function is off to ensure your signal can reach our equipment. Again, star-1 and we'll take our first question from Nick Mar from Macquarie. Your line is open.

Nick Mar: (Macquarie, Analyst) Hi, guys. Most of my questions have been asked already. Just within the guidance, is there any assumption around CEO costs for that year? Obviously, you've got a period without one.

John Fraser-Mackenzie: Yes, there are, Nick. I think we're assuming a CEO for nine months of the year, or that's how we've budgeted to be honest, so that's in there.

Nick Mar: (Macquarie, Analyst) Okay. No, that's cool. Any thoughts on the possibility of consolidating the Bay of Plenty plant into Highbrook and delivering from there, given your increased capacity with the CapEx?

John Fraser-Mackenzie: Not yet, to be honest. That's still a way off. One thing we are doing is we're being much more proactive around balancing production and demand across particularly the North Island but also the South Island. Christchurch has been helping out on manufacturing products. So, because we're prone to spikes by day in different factories, we have developed a model we like where the factories support each other, but at present we're too busy to do anything with the Bay of Plenty but it will always be an option in the event of volumes dropping off.

Nick Mar: (Macquarie, Analyst) Then just lastly, if things were to turn down in New Zealand, how are you guys positioned to respond to that?

John Fraser-Mackenzie: Obviously there are drop-off points from - and the key - I guess everything has been \$55 million in New Zealand approximately on labour, so glazing, we have it split between subcontractors and our own internal workforce, so we're able to dial glazing labour up and down, particularly in the commercial space, pretty quickly. So, there's a lot of flexibility. Within the factories again we'll get to drop-off points where we are able to eliminate shifts.

Obviously, that kind of first step is overtime, so that will go to overtime first then whole shifts and ultimately, we have options on going as far as mothballing the whole factories which the Bay would be one of those candidates if we had to, but that would be obviously a pretty dramatic - would need a dramatic drop in volume to get there.

Nick Mar: (Macquarie, Analyst) Okay, thanks.

Operator: Again, star-1 if you'd like to ask a question on the phone. Star-1. We have no more questions on the phone.

Peter Griffiths: Thank you very much. Just one last round in the room; any final questions or comments? If not, thank you very much for attending and we look forward to seeing you at the annual shareholders meeting in August. Thanks a lot, cheers.

Operator: That concludes our call for today. Thank you for your participation. You may now disconnect.

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