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Merlin Consulting

Metro Glass

Speakers:

M = Moderator

NR = Nigel Rigby

DC = David Carr

Questions

KY - First New Zealand Capital

DM – Douglas Macphillamy, UBS

JB – James Bascand, Forsyth Barr

SH – Steve Hudson, Macquarie Securities

M	This is PGI. Please stand by. We are about to begin. Good day everyone, and welcome to the Metro Performance Glass earning release conference call. Today's call is being recorded. At this time for opening remarks I would like to turn the conference over to your moderator today, Mr Nigel Rigby, please go ahead.
NR	Hi guys, how you going? Welcome. We will go through the first eight months of Metro and then we will cover at the end any questions you want to cover. So quick refresh. I know you guys will know the company pretty well. Obviously we are the largest glass processor in New Zealand, with raw float through to end use products. Don't think of us as sort of a logistics company, we are basically…think of us as a logistical company rather than a glass company. We have got a very good favourable backdrop in terms of a market and very good financial returns. It is a 20-25% EBITDA margins. Glass is one of those great growth products that the building industry has right now. So, you know, I am not going to cover too much on page 2, because most of you guys will know us only too well. Let me cover page 3, senior management. So as you know, 2014 was a ripper year for Metro. We basically started the year off with starting up a new concept around automated plants in Christchurch with a $5 million capital. And then we obviously IPO'd and then we started up Auckland plant and involved in the middle of that we did another bunch of things. Post listing we had to think about, well OK, what was the senior management team of Metro going to look like? The private equity chapter is over, we are now a listed company, what is

	the senior management structure we want to have going forward and what does that look like? Then we started recruiting. So obviously we started this process towards the second half of last year. So the senior management team consists of five guys. Obviously, luckily enough, I'm there. So you know Geoff Rasmussen well. Geoff is our power player around operations and logistics. He has just done a phenomenal job since I've known him, since my 2.5 years at Metro. He would get a job at Hardy tomorrow. He is a great player. David Carr, obviously hired under private equity terms and he has done a great job with us and you will know him only too well. In terms of transitioning us from private equity to public markets in the IPO and all the hurly burly of setting up Metro. Financials in Metro when we started out from a private equity were tough. So David has been instrumental in getting a pretty good team of financials. But that said, David is going to leave the business on 31 July and we are lucky enough to have John Fraser-Mackenzie joining us and he is joining us now, so we get a really good transition between CFOs, which is sort of unique I suppose. We didn't widely advertise the role. We just went out hunting around and we are lucky enough to have John on board. He is on board now and the transition takes place over the next six weeks. He will be joining us on our analysts visits, so a lot of you guys will get a chance to meet him. We are going to divide the company operationally into two buckets. One is the North Island, one is the South Island. You may remember we used to cut the business into Upper North Island and Lower North Island. We are not going to do that. Dean Brown is joining us. He is Northern Region GM for Wastecare, Trans Pacific Wastecare. He has got an MBA from Auckland and he joins us on July 6. Obviously we hired him a bit of time ago. Some of you may know Barry Patterson. He runs the South Island now, and he is in that role. So basically the senior management team of Metro consist of five guys who run the company. That is how we see the next phase of Metro as we grow to the next 3-5 years in whatever path we choose to take. OK, so eight months, how did it all shape out? You guys have been tapping away, so you will have a tonne of questions. But basically, hit the net profit number. A little exceed but not a tonne. Auckland site, we will talk a lot about that, but we are feeling very good about Auckland site and a number of you would have been with me through the journey and some days it didn't look so good. The plant is in great shape. I will cover some numbers and it is probably way better than we expected. It has come on time and in budget. It is operating well. Retrofit sales are going pretty well. We obviously started our focus back on Retrofit six months ago. We started TV campaign five weeks ago. It is going pretty well. Sale is probably the thing that, if there is a blimp on the screen, it is sales. Now look, we've got a pretty simple synopsis and a lot of you understand this only so well. Obviously over the eight month period we are 11.1% up and we thought that the PFI would be 13.9. We had a line of best fit and a nine month lag start. It has come off that to some extent. We haven't lost share. As you know we diligently look at glass imports, we diligently look at DGU share, we know it down to our competitors, we know it down to geographies. We don't believe we've lost share. We have maintained the share we have been growing over the last 2.5 years, or thereabouts. So we are pretty comfortable that as many of you are reporting,

	the industry has just got constraints, and there is a deviation between consents and work put in place, and it will catch up over time. As we have seen start sort of top out at 25, the industry will catch up, whether it is land supply in Auckland or labour in Christchurch, it will work through those issues. The great thing for us is we believe it will be longer for stronger, as you guys are reporting. We actually like it. But we have a PFI. We put a number in it. Increasing EBITDA margins and then operating profit of 23.5. Yeah, abnormal expenses. One thing you always worry about in capital is one they fly out of control in terms of budgets and capital overruns and abnormals go berserk. That has not been the case. We have come on time in budget. Abnormals, exiting all the sites have come in a little under, so we are pretty comfortable. And then directors have approved to pay a dividend, 3.6 cents a share imputed in New Zealand, payable on 4 August for those shareholders who have close of business 20 July. I know no one on the call will be looking at selling before that, in fact all you will be doing is buying. Alright, I'll hand over to David on the financials.
DC	OK, now obviously if you look at what has happened with our financials, primarily it is really a sales story. I mean, we will talk a lot more about sales as we go through this, but ultimately where we have…our sales growth has actually decelerated slightly from what you would have seen at September. Now ultimately what we're seeing here is a PFI really should an acceleration of sales consistent with what we were seeing in consents. Now as Nigel has already eluded, what we are actually seeing here is that our sales growth has basically stayed flat and not accelerated as we originally expected. Again, we will talk a bit more about this, but ultimately where we are going with this is that we just believe that capacity constraints are actually limiting the industry structure to actually continue to move up. Now having said that as well, we are actually seeing…I know we have spoken about this a few times before, but we are seeing lumpy sales. If you look at it it looks all flat and consistent, sort of like this very high level. But that is not the way it is playing out. If you look at region by region, month to month, our sales actually are quite lumpy which is actually making it a little bit tougher to manage the cost structure. Again, you will see a little bit of that as we go through here, but ultimately we have been able to manage that well. Now just going down to the gross margin line, see our gross margin line is slightly lower than the PFI. Now, I think we have probably eluded to this before though, but as our volumes were increasing in the old plant, we did actually start to hit capacity constraints where we were actually suffering from negative economies. So if you look at the factory labour that occurred in the old plant, we were actually running ahead of sales growth on those particular line items, which is the reason why our margin is actually worse than the PFI, it is primarily through factory labour. Our raw material costs are essentially flat, as you guys know, we basically hedge out our raw material costs and we have actually seen no real movement in US dollars so our raw material costs are actually flat through this period because of our hedging strategy. The reason of what has happened to margins is primarily because of the factory labour. Now again, the good news and bad news of this is, bad it happened, but ultimately this is the whole logic of why we invested in the new plant. This is solely a movement out of the old plant. Where in the old plant we were actually, as I say, had negative economies, but as we

	moved to the new plant that would certainly be elevated and we will be able to manage that a lot better. Obviously we have had a few issues as well around distribution and in terms of some of our DIFOT (Delivery In Full and On Time) scores, that does actually impact our distribution expenses and that is partially the reason why that one is a little bit up. But I guess the flip side of the coin is obviously we have seen some of these cost increases in some areas, particularly around our factory, and slight in sales – but we were able to offset that by cutting some of our discretionary expenditure. Now, some of that has been in selling in marketing. We did cut back our advertising. We were obviously having some capacity issues in the old plant, and it just seemed prudent to do that, given those particular issues. And we were able to cut back on some of our admin expenses through that period as well. Again, primarily the drivers of that have really been two things. We did actually factor a fairly significant uplift as a public company, and a lot of those expenses were sort of like just shunted out and so we reduced our expenses that way. And then also in terms of our incentives, our management incentives, some of those guys have not achieved that, so therefore that incentive was actually lower than we originally forecast. So top line numbers are, basically we missed sales slightly. Slightly higher factory costs than we anticipated before the move, which are now coming into line as we have some capacity constraints occurred. Again, we were able to offset that by finding administration expenses. Coming down to abnormal expenses, obviously they are a very chunky number, given the fact that we have two very significant events – being the IPO and also the Auckland restructure. We're very pleased with the way we have both forecast those and actually managed them. We have a team who have been actively managing the Auckland restructure and they've done a really good job in terms of managing leases, managing general costs and so forth. They've done a pretty good job there which we're pretty happy about. So therefore, coming down to the EBIT. If we look at the EBIT line after everything, we are basically slightly ahead, even though we have actually missed… on a recurring EBITDA basis we are essentially flat, but we are actually picking up a little bit in terms of abnormal expenses and also in terms of depreciation. We did anticipate that the Forvet, which is the automated Edgework machine would be installed and operating by the time the new factory got up and running, and again we have been depreciating a new plant since January. But that would be included in the numbers, but that has actually come in late. So ultimately if you look at where our CAPEX is, our CAPEX is really just behind by because of the Forvet machine, and again we have picked up a little bit in depreciation. So overall, again at each line, EBITDA basically flat and those other line items we have picked up slightly, so we have ended the year basically slightly ahead of where we anticipated through the PFI. OK, now again I have probably already covered this in terms of margins, but let's have another chat about it. Again, as I like to reiterate, our raw material costs have basically been flat as a percentage to sales, and again, that's because we do have a fairly rigorous hedging strategy that basically locks in our New Zealand dollar over this time frame, so we have really suffered no effects to date and we won't probably experience any for at least another

	six months because of that hedging strategy, so raw material costs have been flat. Operating labour costs, as I said, have basically been up slightly as the old factory – and again that is an old factory issue, not a new factory issue as we did start bumping up against capacity constraints in those particular factories. Other factory costs and other processing cost have all been well controlled. Our cost control capacity in this business is actually pretty good. As I say, with the exception of certain areas around where capacity does become a constraint, then it becomes a little bit more problematic, but other than that cost controls have generally been pretty good. Now, marketing costs. We did take our marketing costs down primarily just because of our capacity to service, we were worried about that, particularly with a new plant coming on board. So we did save some money there. But again, I think as we talk about going forward, clearly now that the plant is in place and functioning really well, obviously we will be stepping on the gas and that will be increasing. Obviously the overhead piece, again, given where we were, we decided to cut back on discretionary expenditure to a large degree, and that was part of the reason why we were able to get home with the numbers. Now if we turn over to the balance sheet. There isn't really a lot of news here in the balance sheet. If you look at what has actually happened here, I guess the only bit that is probably a little bit disappointing for me is really if you looked at the our September balance sheet and our March balance sheet, you will see that working capital has actually lifted a bit. Now, ultimately that is a bit of a disappointing position, and again it is really driven by a couple of things. We have actually gotten a bit overstocked in terms of inventory, and that was because of basically a combination of things. We had a systems issue which meant we were almost running out of glass. We had a bit of a scare of our glass stock out, and we tended to react the other way a bit. So our inventory has gone up quite a bit. And also as we have been having a few service issues around other areas, our debtors have actually crept up more than we expected. Again, if you look at the PFI, the PFI assumed that we were actually going to do better in terms of debtor collection days driven by some systems changes. Again, we are probably a little bit laggy on those, so we have yet to pick up the gain. Ultimately what has happened is our working capital has picked up and it has increased a bit from where it was, certainly versus September. And you can see that is actually reflecting in the cash numbers. Excluding those line items the rest of our balance sheet looks very consistent with really what we forecast. Again, outside that real issue of working capital, the rest of our balance sheet is looking pretty good.
NR	OK, let's talk about Auckland site. I guess, if you look at major things in Metro, 2014 year for Metro was probably a banner year. We started the year off with ripping into software and a $5 million upgrade. So let me go through the Auckland plant because we are probably in a way better spot today than we certainly felt throughout our start up. They are griping events start-ups. Something you don't want to do if you can at all avoid it, trust me. I would rather be an investor or in a bank. OK, so basically the plant. $21.5 million, purpose built, glass processing plant. 215 metres, 70 metres long. 70,000 square metres. One of the most advanced plants in the world, if not the advanced plant in the world. Certainly it is what we are told from the suppliers. It

doubles our Auckland capacity, in some cases quadruples it. We see it both an increase in capacity and lowering our costs.

So basically we are 15 weeks in, or thereabouts. We are very pleased with how it has proceeded on time and on budget. We have spent the last six weeks at 90% plus DIFOT, which is our key measure. When we are 90%, I don't think many, if any, manufacturers of glass live in that 90% world. We do. Our target in Auckland is 95. But being over 90 is a key threshold. That has been the Metro performance standard and we think we can improve that.

So for the last six weeks we have felt really good about the plant. It has come in big licks. We have got our software systems working well, our plant is running way more under control. We know by 4 o'clock in the afternoon whether we are going to hit our DIFOT for the next day, so we've got all those systems in place. So, and now it is about bedding it in and bedding those gains in. What we want to do now is we want to really ramp up the throughput. We like the volumes we are seeing now in May. Remember, when your service sort of comes off the boil, yeah – look we don't think we lost any long term share or short term share, but having said that our inability to supply and hold that customer's back, and so we actually constrain the market because we are over half the glass market. Certainly we would be that in Auckland. We actually hold the market back. So when you get your DIFOTs to 95 and more importantly your re-works, if there is any, you then speed the market up and the market grows again and everything turns back to normal. So we feel really good.

We would not have been expecting to be 90% plus this early in the piece. Our original target was 30 June and we got to that position close to 30 April, so it is way ahead of our original game plan. But we need to be there and we changed our game plan mid-way and so we are feeling good. Having said that, it is a long way to go. This plant has probably got 18 months of optimisation to go. It will get it in big licks early on, and then the quick ones will leave.

The Forvet start up is in place. That is our edgeworking capability. So edgeworking is making shower doors and anything that has got a hole, flat polished, polished edges, cut outs. It is an integrated polisher, water jet cutter, tooling machine. It produces a shower door in about 25% of the time that normal glass working gear would produce it. This is called a Francesca GIARA. There is about eight of these in the world, only. We are lucky enough to have one of them. It arrived. It is in place. It is electrically checked out. We are training our people on it now and we will be making glass by the end of the week. We won't be making a lot of glass, but none the less we will be running it. We are pretty confident about this bit of gear. We have run it in Italy before it left, as the added insurance factor. A lot of moving parts in this plant now. We didn't want another bit of plant were we had to try and figure it out from first install. The way to get around that was to start it up in Italy, which we did, and then disassemble it, throw it in a box and bring it out.

Again, we don't think we have lost a tonne of share. We are obviously monitoring this hard. We get glass share every quarter. So we have glass share up until 31 March, so we know where we are sitting there. We have DGU share up until the end of March as well, and we know what we have done. We are pretty paranoid on share, we measure what everyone else does, so we don't think there is any long term effects.

Having said that though, when you go through a plant start up your customers do go through hell and back with you and time is a great healer, but the result of the Auckland plant is really good. There is nothing in the plant we haven't we seen that we don't like. We like its speed. It has delivered everything we like. We knew what we were getting and we have got it. IT has got a tonne of upside in software and we have resourced it well. We think we have been on the mark in terms of what we've committed to.

Abnormals is always the worry when you are exiting so many sites and you've got so many moving parts - will abnormal come out? Effectively if you remember in IPO times we predicted the abnormals before we had even accepted completion of the building, let alone…and the gear had just gone on ground. We started installing gear about 17 July, so we were IPOing at the point where we hadn't even put hardly any gear on the ground. The building wasn't complete, the floor wasn't even down. Most of you guys would know that because you walked it and had to walk over a bit of base course. So it is pretty good to come in with abnormals on the right number, so we are pretty comfortable there.

OK, so plant summary, going well. Bit better than expectations, but we are going to double down and go for it. We have got good guys, we've got a good plant structure and we need to double down and go because the pendulums turn now. We are about top line growth. We are back on our game that we were, which we came off basically. Primarily through the mid part of last year, as we started to bump up against our capacity. But now we are back on volume growth and share and back to selling some of the products that are hard to run.

As you turn over to slide 11, you can see that is the Deloitte building. That is what we call 151 Cambridge. So that is a job we have done in Christchurch. As you can see, it is a pretty sophisticated Low E, structurally glazed panels, fixed with fins that digitally printed. It is a great job. And you know the Cardboard Cathedral – so a couple of jobs there.

So let's go through sales. Revenue, we thought we would get close to 14 and we got close to 11. It is a lumpy market and there are industry constraints. The Lower North Island growth is slower than Auckland and Christchurch, and I think that is more of a structural issue.

We benchmark ourselves relative to wallboards and other players. So we look at bell weathers in the market that have big shares. We would be pretty comfortable that our revenue is equal to or a little ahead of where the market is at. Having said that though, you guys have reported only so well that the industry had got constraints, and whether it be land in Auckland or labour or installation and that has proven to be a bit challenging. You can sort of see that with the starts now tapping out.

If you go to slide 14, you can see that at IPO time we believed that our sales were nine month lagged where line of best fit was the red, and now that line has moved off. So that is just a case of industry capacity not keeping up with consents and you can see the consents start to slow down in the growth of them, and that is just a natural phenomenon. We actually like that, it is going to be longer for stronger. We see Auckland being robust long term. We obviously wanted to get Auckland plant and Christchurch plant out of the way, so we like that because we would have hated to have been outflanked when we had the Auckland plant before we got it up and running.

As you see on slide 15, you can see our book of business and commercial is continuing to rise. So January, February, March has continued to rise. We are up to nearly 16 million. I can tell you in April it has risen again. So our book of business and forward orders in commercial continue to grow. So we feel pretty bullish about the market. We think for the next 12 months it is going to be a continuation of this highly fluctuation month by month, as the industry runs in and out of capacity. But we think long term that will be great. It is good

	for companies like us if we can figure out how to take some of the tops and the bottoms out of the monthly fluctuations we will do well. So commercially very good. You know, you can understand it, we have got a building in Christchurch which is massive, which we bought the glass in for and we were going to start structurally glazing in September. We have only just started that a month ago. Six months late. So they are the sort of constrains. And of course it backs up on a number of other jobs, and we would have four or five major jobs in Christchurch now that are taking off. Auckland is slow. We don't have an answer to why it is slow. Auckland is starting to move commercially around apartments, but as you see we saw lots of high profile projects in the paper, but actually turning them into kinetic work is a bit of a challenge. Auckland is starting to grow, but commercially we like where we are at. Residential we think we are in a great spot. We have a technology advantage around our Low E. We have now got a plant that has every bit of capability, and most importantly it has plenty of volume growth upside. We could double it from where it is today and be pretty comfortable. Manufacturing and capacity will not be our constraint. OK, so go to retrofit sales. We really backed off as we told you on retrofit sales. With all the things that we had on, whether it be IPOs, Christchurch, Auckland, building up a management capability, we came off retrofit. So net sum of the game is we are back on retrofit. We have got a guy that does it full time. He has been doing it for six months. And as you can start to see in January/February sales started to rise. If I go to slide number, I am guessing on my numbers here, but about 15 – we ramped up another series: five weeks ago we started a TV campaign with Peter Wolfkamp and a bit of print and web, direct advertising on TV retrofit, which we have never done before. So retrofit is away and laughing. Strong leads out of that TV campaign. We would have 2.5 times the leads that we had this time last year, and it is only five weeks in. We have added additional capacity. We have got our sales mechanisms evolving, so of course our game is one-call-close. We sort of unique, no other glass guy does this, but we basically market the leads, the sell in the home and we install it and pick up the cheque. So it is a Metro driven game. We feel good about the lead flow and the acceptance of work. We measure it daily. We have some tools around selling and we have also got some increased capacity. So we feel pretty good about retrofit and we will just have to see how it plays out. We need a few more cold snaps, would help, to get the game going. It has been a pretty warm entry to winter. Even with that warm entry to winter leads are looking good. OK, so let's get to the outlook and just before we cover that, we did buy a business in the period. Mainland Glass. It is a glass processor in Christchurch. It fits our strategy. As you know in Christchurch we have Metro Performance Glass. We also have a company called Christchurch Glass and now we have bought Mainland Glass. They are a small double glazing manufacturer down there and glass processor and merchant. We like it. We have bought that business and the owner has retired. So it gives us another channel to market, it fits our strategy. It has been a very seamless integration without incident. We know these businesses well, so that is just a bolt on to the business. Summary. It is a lumpy market. The industry has got constraints. I don't want to labour that point. We have got six months to go on our prospectus. Auckland is soft, it would be fair to say. That said, we have got plenty of commercial forward workload and we've got a really strong book, so we like that. We like our share position and we also like the fact the

	plants are behind us. Having said that though, plants have a happy knack of giving a few challenges out but when you get them up and they get on the plane and you start building on them every day, the Forvet is the last thing really that we're challenged with, because being such a quick machine it will be like a vacuum cleaner of glass, so our cutting capacity and our synchronisation has to take a step up. We have already planned for that. We don't see any reason why that won't work well. So we like the plant that is behind us so we can get stuck into our mixed shift towards high value products, get into this commercial façade and really start focussing on top line. In Auckland we have doubled our sales team and we are in the process of doing that because we do see a tonne of upside. We are feeling very good. Having said that though, we see these constraints providing a better market for longer and we obviously like commercial. Obviously we are pretty confident about the future, we like it, there is no dark spots I suppose in our minds. You have got great migration, immigration, you've got good population growth, you've got favourable interest rates, you've got all the drivers working the same way. That said though, we will have to monitor sales over the next six months. You see us, there are a lot of good things that have gone on at Metro over the last eight months, but sales would have lagged our PFI. That said we are early in the six months. We are probably in a better position to update you on the AGM. We are obviously confident about the future, we like it. That said, the industry is going to go through these constrains for probably the next six months, if not longer. But we are in a way better position now, with plenty of capacity and all of our parts working that we will see some good share gain and some good top line growth. The question is will that meet our PFI? We will have to play that out over the next six months and see. A good time to update will be our AGM. OK, so that is it in a nutshell. Any questions?
M	If you would like to ask a question, please press * followed by the number 1 on your telephone key pad. We have a question from the line of Kar Yu Yeo from First New Zealand Capital. Your line is open, please go ahead.
KY	Morning Nigel. Morning David. Look, I've got a bunch of questions, the key one as follows. Firstly, Nigel, you talked about that lag. Just trying to understand whether that is sort of constrained at the window manufacturers level or whether it was actually constrained by you guys inability for a short period of time to supply the glass to the install market? I will follow up with a second question.
NR	I think it is more macro constraint than it is…there will be a factor in there where we shorted the market for a period of time, but I think generally if you take the six months…you take the eight months, window fabricators generally have enough capacity to meet the market and there is some ramp up there. I think it is more industry constraints that are affecting both them and us. I think capacity wise fabricators and Metro have plenty of capacity for the market now, now. And I don't think that was a constraint over the last six months to a greater extent. But not a tonne.
KY	So in respect to your guidance where you are flagging the risk of consented work taking

	longer to translate to work put in place, are you thinking that you do not have enough cost savings lever with the new kit that you've got to actually offset that delay or lag, or longer lag than previously observed?
DC	I think what we are saying at the moment is that we don't know. Ultimately what we…and this is the problem when you are over a very, very short forecast period, right. We have only really got, if you take it from today, we basically only almost have four months left to run, and when you are talking about that kind of short time frame and where you are talking about numbers that do have a reasonably chunky assumption, you only need to have one or so bad months and it causes you potentially an issue. I think what we are really talking about here is really a couple or potentially a short term issue, as opposed to the long term, right. And I think what we are doing is guiding you to basically say, listen, we have already said to you that sales have been lumpy in certain areas. And that has been a fairly consistent theme. We are actually talking about those two issues, both lumpiness and also constraint . Now, I think, and again – sorry, really it is a combination of those three things. We certainly believe that the overall thematics of the New Zealand market are firmly in place. Sales are lumpy and particularly we have seen, as Nigel has already indicated, some softness just in Auckland, quite frankly what is over the short term, but we are talking about a very short forecasting period, which means then that we are going to have to be a bit nimble and a bit open with the way we communicate with you guys. Particularly while we've got a hard number out there with the PFI. We are talking about a normal cycle, right, it would be much less of an issue.
NR	And to your point we do believe the plant is in a way better spot than we would have expected. So I think we put on the outlook page, we do think the cost savings will run ahead of our expectation. Now, will it make up for the short fall in sales? That is potential, but I don't know that. We will know that better at AGM time. But we are pretty confident the plant is a bit ahead of schedule. That will give us capacity upside. That will sort of change our focus on top line revenue. We will go harder on top line revenue than we would have gone previously. And it will also mean that our cost savings will come quicker. So it is little early to say exactly how that will all flesh out. As you know, we are not giving you guidance we won't hit PFI, it is a little bit early to call that.
KY	Understand.
NR	And we want to get some noise out of the system. So part of a plant start up is that it has just got a tonne of noise in the system. We want to eliminate the factor that the plant is an issue, and that is now off the table. When you are hitting 90s, we have had six weeks of 90s, you know now the plant is not our issue. So now we can get stuck into figuring out and to change the whole business focus on top line revenue. The whole business is subordinated for 14 weeks, 15 weeks, on getting our plant up and getting our systems to work and now that has come off. We would be spending more than 50% of our time on top line and growth, as we did up until about IPO time last year. So it is a good thing to be doing.
KY	Right. A couple of questions please. Admin costs, the number was substantially below where you thought it would be. Is there, I guess, David is there some thinking that that would end up going back to the PFI level on a pre amortisation charge and listing cost basis?
DC	Well again, there is two components. Yes, I think ultimately the listing…there is two components to what is driving it. First of all the PFI, we have a bunch of extra costs, extra heads and a lot of extra professional services associated with us being a public company.

	Obviously as things have developed, we have tried to keep our discretionary expenditure down and that has been an area that we have focussed on. So for instance, we have absorbed a lot more of those actions that what we originally invented in the PFI, the team has basically taken on more. You are quite right, that is not a sustainable proposition over the long term and we will have to unwind. The second big component here is the way we have set our incentives is that some of our guys have not actually achieved their numbers, and therefore we have had some savings in terms of incentives. We are pretty hard and fast with that one. We are pretty tough. If you don't make the numbers you don't get paid. Ultimate that is the second point where we have actually had some savings. Now clearly, that is an area where everybody wants to pay out, because where we pay those out that means we have actually hit all our numbers. So again, that one there, I expect that that number will return.
KY	OK. And the final question for you David is in relation to your hedging. I think it was yourself and Nigel that talked about the costs, for the next six months anyway, as staying flat in New Zealand dollar terms because of your FX cover. Could you give us a sense of beyond the next six months, 12 months and beyond, to what extent you have got your position covered as well.
DC	Well our forward rate, basically if you look back…basically extrapolate it back 12 months, you will see that…and you can do this maths as well as I can. Basically we are still continuing rolling 12 month hedging, and ultimately our hedges, once we get through to the end of September, consistent with what happened with the New Zealand dollar, our hedges reflect that movement at that point.
KY	OK. Thank you.
DC	Right. Sorry, Kar Yu the second half we will be suffering some exchange rate movement.
M	OK, you have a question from the line of Douglas Macphillamy from UBS, you line is open please go ahead.
DM	Thank you. Good morning. Just a quick couple of questions if I may. Firstly, just on the sales and marketing cost that obviously came in a bit below where the PFI numbers were sitting how you see that playing out as we look forward into the FY16 year. The second question is, just in terms of your cost-out expectations for the Auckland plant, whether that is still very much as robust as you are talking to back in November.
NR	OK, so sales and marketing costs, yeah we probably see them coming back into line. We certainly…it wasn't an active programme that we chopped sales and marketing costs. It is just that the whole business subordinated in terms of one, getting the Auckland plant up and running and getting Christchurch finished, and the activities we had internally. No, we would see the sales and marketing costs coming back to where we picked PFI. Obviously we have started a TV campaign about retrofit, and we planned all that way in advance, so to your point Doug, no they will come back. We are going to put more sales people on the road in Auckland because we have got some sophisticated bits of plant, and some of that will allow us to sell in segments we wouldn't have participated in before. Auckland cost-out, no we have been a bit more robust about that. We have a very active

	model we run. We have obviously been telling the plant: run DIFOT, run it up, run your designs up and do what it takes. Now we will start leaning out that. The Forvet is a big chunk, so we have been a bit more deliberate about that. But no, we have been very bullish about our cost-out programme and as we have sort of said in our outlook, we think our cost-out will actually run ahead of what we had originally planned. So you will start to see them flow through. Unfortunately in a plant like this, when your automation starts kicking into gear, your labour savings have to be commensurate with it, because there is nothing for them to do, so you end up dealing with it just by the plant starting up and reaching its design capacity. It is a little bit ahead, it is obviously a couple of three months ahead of that, so we would be expecting to kick into that now. And we have built in the PFI very small savings, some savings, but on the small end of that.
DM	Sure. And just lastly on working capital, obviously a little bit higher than expectation given the inventory side of things. How should we think about that going into the second half and, I guess, should we expect that to normalise going forward as we think about our numbers post this PFI period.
DK	One of the things we have actually invested quite a bit of money here in terms of actually a perpetual inventory system. Basically some of our system around inventory were quite unsophisticated and basically what we've done is we have actually developed a new system and that is about to roll out. That has got proper forward demand planning, we can actually centralise the entire process, rather than having sort of like eight guys ordering stuff around the country, which creates duplication and problems. Now, ultimately, that will certainly bring our inventory way down. I am very confident that will take out a chunk out of our inventory. Plus particularly as we unwind what has been a temporary problem, as we did over order again because of the shortage and because of a proposed price increase.
DM	Got ya.
DK	Which never actually eventuated.
M	OK, you have two more questions on the phone. The next one comes from the line of James Bascand from Forsyth Barr. Your line is open, please go ahead.
JB	Thank you. Hi Nigel and David. A couple of questions from me as well, firstly, how should we be thinking about the split of revenue between residential, commercial and retrofit and I guess on top of that, has there been a change of mix towards commercial that is increasing that lag we are seeing from revenue…from consents to revenue?
NR	I don't think it has changed a tonne. Commercial would have increased marginally, but not a tonne. You can see that in our forward book of work, it just keeps on growing. So no, but it will change overtime because once that book of work starts unloading, yeah our mix will go. We have always said 70/30, we sort of said we think it will go to 60/40 ultimately, once commercial kicks off in Auckland, we sort of see that mix moving.
JB	OK, and are you going to provide a split at any stage of what the actual commercial, residential and retrofit revenues were?
NR	No, not at this stage.

JB	OK. OK then. Secondly, talking about raw material costs being, I guess, proportionately flat across the sales, how are you seeing pricing in the float market internationally and any pressure upwards, I guess, from that perspective.
NR	OK, there is a sort of a double edged sword there. Yeah, there is no question that the commodity guys have been trying to lift their price and we have been juggling that around in the latter part of last year. We estimate that our glass price in real terms is going to be flat, if not a little bit down at the moment. We are moving some of our float supply to Euros, and of course as you know the kiwi dollar has been performing pretty well against the Euro, so we have just moved a fair chunk of our business out of US dollars to Euros. Not necessarily to play the exchange rate play. Generally speaking Europe has been in a tough spot and they give us very good quality product, it has just become globally low cost, so we have been changing our buying patterns. James, I don't see float input costs going up. I do see us moving our mix around the world, appropriately, but our dollar is decreasing against the US dollar. That will become an issue. We have been starting to buy Euros. Our game is, yeah, we think there is a bit of foreign exchange in the second half of the year, but we also see a real opportunity inside procurement. We haven't finished on procurement. We have got another couple of years to run on procurement. We haven't focussed a lot on it in 2014, but we will certainly pick up our game and get back on it. We did a lot of that in the first 18 months. We won't offset the second half US dollar, but procurement has got a lot of gas in the tank left yet.
DC	Our systems capability around actually juggling inventory was actually quite challenging, just because of the simplicity of our systems. As I've said, we just substantially upgraded that, and that is not only going to significantly increase our capacity to actually just manage inventory lower, but also it is going to give us way more capacity to actually shift buying patterns away from established suppliers to actually pick up the lowest price. So that is also going to be a lever that we will be able to pull as the exchange rate has potential to drive up cost.
JB	OK. Thank you. And just finally from me, the retrofit market and obviously we are going to see some more of a push into this space than we have recently, how are you seeing the competitive dynamics in that market?
NR	OK. There is not a lot, it would be fair to say. I've got to be careful what I say here, because that will only encourage people to join us. No, not a lot. One, no glass manufacturer takes our sort of philosophy that they want to do it all. And what we've got to do, is we have got to participate as an industry, because as you said, there are very few people marketing retrofit as an option, and yet if you are looking for three things to improve your home in terms of comfort, you have got heat pumps, insulation and obviously double glazing. And insulation and heat pumps have been beaten to death, so we've got a really good upside. At this stage the competitor dynamics are low, and we are probably the only integrated supplier that is making margin on producing the glass, selling in the home and installing. We are obviously a pretty good installer, we have 200+ people who glaze every day. So no, we have not experienced a tonne of competition. We sort of think the market will have a bit of that and if anything, over the last six months competition has got less. There was a particular company who was marketing stick on PVC inlays for double glazing that went bankrupt and exited the market. So actually the competitive position has got better for Metro, but we don't see many new entrants and we don't see anyone adopting our business model, not to say that they can't but yeah, we are pretty untagged.

JB	Thanks very much, that is all from me.
M	Your final question comes from the line of Steven Hudson from Macquarie Securities. Your line is open. Please go ahead.
SH	Thank you. Good morning Nigel and David. Just a few follows up from me. I just wondered if you could give us a feel for your DIFOT in the second half in the Auckland plant - you have obviously given the number post balance date. Secondly, could you also comment on pricing versus PFI and also I was just interested if you could give us some background information to the North Island management changes with Dean coming in.
NR	OK. Sure. Absolutely. Yeah, DIFOT as we measure it, it is a pretty strict measure in Metro. Yeah, it would have been….January/February below 50. It would have been March 60-70, 70 through April and then bang. Once you get your systems in place it would have been 90 for the last 6 weeks.
SH	OK. That's useful.
NR	That is how it would feature. Pricing. No, not a tonne of pressure on pricing. There obviously is a bit of rebalancing going on, but generally speaking not a huge amount of pressure on pricing.
DC	I think you do see some movements here in terms of what we are going to see in product margins because of mix, but I think what you are going to see is probably more mix issues as opposed to pricing.
NR	Yeah, and we liked the dollar margins on commercial. So we like that. So commercial actually, a lot of companies don't like commercial because they're doing it at low margin. It is quite the reverse in glass. The margin derived per square metre in commercial is very, very good. If you execute well, which is the trick in the game, you like what you get. The actual glass margins are very, very good. Obviously you don't make so much of the gain in the labour of installation, but the labour installation is a low percentage of the final sale. Commercial margins you like, you like the pricing. The last one is the management change. I guess, you know, in private equity world all they care about is David and I really. And we have got to prepare the business, and we have been doing that over the last 2.5 years for the future. So the reason we made the North Island GM role is because we want to get a business that is over 100 million that we can have the sort of horse power and talent that is required for the future of the business. So we have just built a bigger business to get a higher quality and higher potential person in. IPOs are gripping events. David, he probably wants to play golf, and I am sure you will get a chance to get all the woes. He probably left because of me, but none the less no. So at the end of the day we need a senior management team who is going to lead Metro for the next three to five years, we have got lots of thinking on the game plan, so we wanted to reset that and we started that process towards the end of last year and then through this year. With notice periods and everything else you have got to navigate the waters. So we are going through the organisation bit by bit by bit, and hiring on a structure that we have pretty much agreed. Finance is probably ahead of most, we have got two very good commercial managers in the South Island and for the North Island and we are filling out the finance team, the sort of back bone of what we require. We have obviously filled out marketing some time ago in

	preparation for all the activities that we're going to do, so that has been reset and done. So we have just been working through Metro bit by bit, getting our organisational horse power up to the sort of company… The challenge for Metro is also that our revenues have grown, if you take the three year period going back, our revenues have probably grown 80 million over that period, and it is effectively over the next…it is conceivable over the next 18 months we will double the revenue of the business, and obviously the bottom line impact of that is 3 and 4 fold. So the business has to grow and capability and talent over that period and we have been investing a fair bit in the organisation under which to lead that. So that is the genesis…and we went out to the market finding general management capabilities. We have got a very good team I Auckland and the upper North Island, but we need really good general management. We searched long and hard. We have been searching for this role for some time to find the right player.
DC	Really the question is, that position has actually been open for quite some time. That is not like a change that has been made, that positon has actually been open and basically what we are doing, as Nigel said, it has taken a bit of time to recruit it.
SH	OK, that is useful. Thanks guys.
M	And there are no further questions on the phones.
NR	OK, alright. Thanks everybody.
DK	Thank you.
M	That does conclude today's call, you may all disconnect.

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