Metro Performance Glass Limited
Full Year Results Presentation
Investor / Analyst Conference Call: 26 May 2016

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Operator: Good day and welcome to the Metro Performance Glass full year results presentation. Today's call is being recorded. I would now like to turn the conference over to Mr Nigel Rigby. Please go ahead sir.

Nigel Rigby: Good day everyone. Welcome aboard. In the room I've got myself, John and Andrew. We're going to take a bit of a share of each part of it. We'll just run through the highlights. Happy to take questions as we normally do.

Results - revenue grew 10% on a pro forma basis, NZD188 million. We finished with EBITDA of NZD37.5 million and NPAT of NZD20.5 million - so within range but probably at the bottom end of our range. Giving you some of the highlights, we've achieved strong growth in sales to residential window manufacturers. We obviously track residential window share and it increased +/- 3% from the prior year.

[Metro's share] has grown, while we were starting up Auckland, and I know there was some concern amongst investors about what the impact would be of [new] competitors coming in. But as you can see actually we've benefited by competitors coming into the market. We see further growth going forward in [market] share as we win a bigger share of a bigger pie. Partly because we've got the capacity and the capability, and partly because as we get over the Auckland start-up and move on to the optimisation phase which we're in now, we just see ourselves getting better and better.

Committed commercial workload - we finished the half year at NZD 18 million. We signalled that we had further growth ahead. That book of business has grown to NZD27 million as at 31 March 2016. In the short term we see that continuing to grow. So it's going to be a challenge for us, and we have covered this in our costs so we are prepared for it. The [commercial construction] programs are slipping, sure. You see a lot of tower cranes in Auckland. We certainly see a lot in Christchurch and you starting to see, interestingly, Wellington is coming on as well and I think we see that across the country.

We're prepared for it. We see it growing in the short term but we see in this financial year work being executed - we're expecting to start in the next six weeks, Christchurch Hospital. We are starting to manufacture units for Quad 7 which is a development out of the airport. We're doing that now. So we're starting to see that commercial book unloading, not to a great extent but we see that the trend has continued through April and May. But we see June as a bit of a turning point for the rest of the year. So we've got a few - so we see the book growing and we see it executing.

[Retrofit] double glazing if you remember, half year we said it was growing at 26% compound annual growth, we finished the year at 39%. So you can see in the second half of the year we piled on the growth in Retrofit. We see that continuing as well. Our target was 30% so don't think that 39% will be repeated again - internal target for us was 30%. Obviously you've see us back on television. We've got a few more twists on the Retrofit game as we evolve and develop. So we hit NZD14.1 million.

We continue to invest in our distribution channel. One of the challenges we see and it's sort of topical that there has been a lot of discussion about imports and the quality of imports. When we designed the Auckland plant one of the things we did want to take back from imports is internal fitout of residential homes, that's showers, balustrades, mirror and splashback. So part of the challenge there is to make sure we've got a channel to market direct to the builder that would enable that to happen and through our customers.

You may remember we bought a Christchurch business called Mainland. Smith and Smith some time ago split their company and split out their glass business. It was rebranded Mint. It went into liquidation and we bought the assets. You may remember a competitor in Wellington called Ultra. Again we bought the assets off the liquidator and rebranded that Capital Glass. We like what we see there. We're going to continue to invest in our downstream channel to ensure we've got the right glazing and installation from manufacture.

I of course think of Metro as a growth stock. I know there will be different opinions on the call but we're going to pay NZD0.04 in the second half of the year, bringing [the total FY16 dividends] to NZD0.076, with a 6.6% yield for the year.

In terms of operating performance - no surprise I think, you would have read about other building materials companies. We've processed record volumes of processed glass in all four of Metro's plants. We've got a very heavy bias around LowE. LowE is of course high performance glass. It either retains heat in the building or it deflects heat, makes it more energy efficient. We've seen that grow. We want to see half of our windows in New Zealand with LowE glass. We're not halfway there yet, so we've got a long way to go. But it's growing well. We like it because it's complicated, it's hard to process and we've become good at it. We've got the technology leadership position in the products that we've got exclusively. They continue to grow but that's a heavy investment.

Secondly we continue to invest in our product leadership strategy. You would remember that in July we installed a Forvet [edge-working] machine which basically chops making a shower door into about 25% of the time. We installed for NZD 1 million a digital printer in Auckland which is a 10 metre by three metre digital printer that does 720 dot digital printing. So it's unique and that digital printer has an upgrade to 1000 dot. So you're going to see really good photographic images on glass. We see that as a leading position. We've also got one in Christchurch. So we see in commercial and residential digital printing becoming a future high growth part of our business as it has been. Lamination - we bought two heat soaks for Christchurch and Auckland. They also double as lamination so we've effectively doubled our lamination capability.

Customer service levels - obviously we've been starting up Auckland. We've been dealing with some pretty variable volumes. We see improvement in FY17. We weren't happy with service in FY17 but it was more acceptable when we looked at all the complexities, and the new equipment. There was some real - even in windows - there were some industry constraints that came in as we all learn how to deal with these new volumes. We see improvement in FY17. We acknowledge the fact that commercial is more complex. They're big windows, they have complicated coatings on them. We've done it in Christchurch. We'll manage it. We'll manage the Auckland ramp-up. We like where Auckland is going in terms of getting capacity ahead of volume.

The Auckland plant - we're over the staff challenges of the last 12 months. We like where we are, it is a significant improvement. To give you an idea if I went back the first quarter of 2013 - so I go back to March to June 2013 - we're making on average five times the amount of double glazed units in Auckland that we were three years ago. So the growth is pretty staggering. Now having said that, Auckland or the Highbrook plant has got tonnes of gas in the tank yet, plenty to go yet. It could double its throughput per day from where we sit today. So it's got a lots and lots of opportunity. But the challenge with all automated bits of gear is you've got to figure out how to sequence it. We're getting okay at that.

The real focus for the next 12 months is we're not - we've finished installing equipment. We're not going to install any more equipment in Auckland. We put a digital printer and a heat soak in in February. That's done. All we're going to do now at Highbrook is run it and optimise it. Really there are four basic focuses on Highbrook: throughput, waste, reworks and logistics. We're going to run Highbrook to speed. Speed gives you capacity. Then obviously we've built a plant that's automated, so that we can significantly reduce waste way below industry standards.

Logistics is going to be our challenge because as we're growing - and we're growing quickly, especially in Auckland - logistics are the trick in the game. We're on that now. For those of you that live in Auckland you realise that the motorway is not going to get any simpler. In fact it's going to get worse over the next five years. So we have to fundamentally change how our deliveries are made and the method by which we deliver.

We've got programs reasonably far down the track in figuring out how to do that. It's not a now issue but it's something we've got to really optimise. When you're running one site you've got to wring all the advantage out. Logistics is now something we've moved onto now we feel more comfortable about the daily running of the plant.

So Auckland we feel good. Then the other three plants are also going well. Wellington has got high service, good model. It's doing well. Christchurch has a big chunk of commercial which is always complicated. So the focus becomes optimisation of Auckland which helps our Bay of Plenty facility; and Christchurch all about commercial.

Health and safety - we're a glass industry. I don't think the glass industry has been overly great at health and safety. It hasn't been horrendous but it hasn't been great. It's been a strong focus for us over the last three or four years. We've seen really really good progress on health and safety.

Staff numbers - gone from 750 to 800. All of that's in glazing to a greater extent. We've invested in glazing ahead of the projects. That coupled with delays is an expensive commodity for us. To give you an idea we've got 70 plus glaziers in Auckland. A glazier is expensive - they're expensive in terms of what you pay them. They're also expensive in the gear they need and the vans they drive. We think that's the right decision. We think glazing in the next three or four years is going to be a very very important part of our business in terms of competitive advantage.

There's no industry body that would churn out glaziers. If you get caught short we'll have a lot more doomsday impacts than we would have ordinarily had we not had glazing. So look it affected our financials the last six months and in fact the last 12 months. We think it's a good investment long term. It's just something you've got to suck up now. We believe we can retain glaziers so the next thing is - well everyone's going to want them so you have to be able to hang on to them. We're going to be just fine doing that. It is an expense. It has knocked the numbers around somewhat but we think that it's a really important investment when you've got a forward book of nearly NZD30 million. Okay John.

John Fraser-Mackenzie: As Nigel said we're relatively happy with our revenue despite some market constraints. Particularly given the second half our daily sales grew over 8% on the first half. On the first half second half splits we had twelve more sales days than in the first half than the second. So we're pleased with that.

Gross profit was up year on year and additionally up half on half, so our second half ended up 1.5 points above the first half. That's predominantly efficiency driven. So as we went through the year the exchange rate declined. We had our 1 January price increase which kind of offset the decline in the exchange rate. So the majority of improvement in margin is really around plant efficiency.

As Nigel mentioned glazing costs were up. We are investing ahead of the curve in that. I think another point in that is the second half we had a slightly higher mix of commercial sales than the first half. So invariably the glazing cost picked up on the higher commercial sales. Additionally with the acquisition of Mint although it was an asset acquisition, we did take on their glaziers which are a scarce resource. So we kind of picked up additional glaziers during the year and probably they are yet to fully hit their stride but we have got the capability in-house.

I think notably on our P&L our tax rate was lower. That's related to prior year adjustments. The most significant one was the tax treatment of IPO expenses. The prior year we had treated those as not being deductible but when completing our detailed tax return we changed the treatment of that. Then there was also a different treatment on lease incentives, so slightly different treatment of that has changed our tax rate.

We ended up the year with income of NZD20.5 million which was within our guidance range.

Now looking at the cash flow and balance sheet, we finished the year with operating cash flows of NZD27.6 million. I think the important thing is we had a very strong second half which was NZD10 million better than the first half. So really that was around of capital expenditure being skewed to the first half as we finished the

Auckland work and also note an improvement in our working capital position as we went through the year despite our growth. On working capital our inventory has increased through the year. There are really two elements of that. One is on the valuation of inventory, obviously with a weaker exchange our inventory is more expensive, so that accounts for a chunk of the increase. But additionally we are prepared and preparing for some work to be coming through in the commercial work. So we are carrying some additional contract inventory in anticipation of that work.

On net debt, so net debt declined by $9 million from the end of the first half to the second. So we ended up in a better position year on year. We are pleased again with the second half - with our cash position at the end of the second half. In terms of the capital number which ended up at NZD11.4 million, within that number is predominantly [spending] on new plant. So over NZD7 million in new plant. We do have an ongoing program of replacing the vehicle fleet so there's over NZD2 million on that. Then some leasehold improvements on buildings and other bits and pieces that were on there.

Turning to slide 7 - the final dividend. The Board was pleased to declare a final dividend of NZD0.04 per share which can be fully imputed. That will be paid on 25 July 2016. That brings our full year dividend to NZD0.076. We have maintained - that's in the middle of the range in our dividend policy that we stated at the time of the IPO of between 55% and 75% of NPAT excluding amortisation of customer lists. That's within that range so we've maintained it at that. Now it's back to Nigel.

Nigel Rigby: Getting on to the market trends, I think the graph on slide 9 that you'll have the most questions about will be the nine month lagged starts. My comment in here would be - when we started - obviously it came out of the IPO - obviously our revenue versus the line of best fit had started to drop below the line, and you can see for the last four months it's above the line - or five months for that matter. We'll have to see how that plays out. We still think the nine month lagged correlation is alive and well. But as you will remember from consent growth it flattens off and then takes off again.

We obviously have a view on revenue. We're now in May. We had a nine month lagged start so we can predict the bulk of FY17 revenue plus market share and individual product growth. We've got a reasonable handle on what we think our growth is. The question mark for us in terms of revenue growth is of course the magic NZD27 million book of [commercial] business. We like the trends in Metro from a category share point of view of residential windows. We like it in terms of our share of nine month lagged starts which - we've got three years history on now so we feel it's an okay measure. The correlation is still very strong.

Starts are obviously very good. Commercial work put in place is looking very good. So from a market perspective the macro trends - you guys would know just as well as I do. It all looks good. We're obviously very focused on the Upper North Island now we're looking at both our residential and commercial activities because we feel that's where the growth is - we've seen very very good growth in Bay of Plenty and Waikato. So we're very committed to the Upper North Island.

That said we planned on the Canterbury residential rebuild nearing completion and declining. We've seen two things. One is Canterbury rebuild of commercial in the centre of the city is growing strongly. We're seeing areas outside of Canterbury growing exponentially quick as well. So we're pretty - we're pretty bullish on the South Island markets. We see very good growth there.

Commercial activity remains - I think you see a lot of tower cranes around Auckland but if you look at them - Metro can't participate until the columns and beams are up and we can glaze the building then. Yet we've got to wait right to the end of any internal fitout. So there is a lot of cranes but there are not enough buildings completed to a stage where the columns, beams and floors are in such that they're ready to close them in. My expectation is that it will start – as I've talked about in June - and we will see some gains there.

It's the topic of the day but the industry continues to experience constraints, no surprise there. I think windows would have been affected in early 2016 where everyone was getting themselves organised around constraints within the window industry. They are temporary, I'm very comfortable about where I think windows are as an example for the next nine months of the year. So very comfortable about where I think the window industry can participate. Obviously I think we have our glazing resources are in line.

Just to go through our business model there's been a little bit of talk – so slide 12 - a little bit of discussion about our business model. We remain very committed to our business model. I know it's different to the rest of the glass industry. We're very much pushing customised products. Hence our LowE, hence our investment in digital printing and heat soaks and lamination. We don't see at this stage larger builders taking a bigger share of residential starts. We don't see commoditisation or standardisation. That's not to say that it won't happen but we don't see it.

We still like short lead times. Even though our service has been below our standard we like short lead times. We want to continue to deliver – that complex delivery model across the country. Broad product range - we're going to continue to build on our product range which is something we've got to manage in terms of inventory. Highbrook - we like what we're seeing. It's been a tough year for our guys running Highbrook because it's probably - it's up there in the top 20 plants in the world in terms of automation.

There's certainly nothing in Australasia that is as automated and advanced as we've got. Certainly you'd be lucky to find it in Asia - so it's one of a handful of plants. But we're pretty comfortable we've come over the hump with that. We've figured out sequencing and our learning curve is pretty good.

We sort of have three buckets that we - I'm on slide 13 - three buckets. Customer intimacy is how we get paid. It's our ease of doing business with our customers. It's full service through to installation and starting to create a consumer glass brand. You'll see us do more work on that in the next six months. We intend to continue with television advertising for Retrofit. We're going to do the same for residential internal fitout. We're also going to talk to the consumer about LowE and what windows you should choose in your home and why.

Product leadership - we're not necessarily an R&D company. We're going to bring world leading technologies to New Zealand first. So you see us doing it there in digital printing. Our 720 dot printer, its going to be 1000 dot - that currently is the best in the world. When it comes to switchable glass on those - New Zealand Super has invested in a switchable glass technology out of Minneapolis. Basically once we see an emerging technology that's sorted and adds a value proposition we'll bring it to New Zealand first. So that's been our game.

We've sort of pulled up now with the equipment that we've got. There's nothing in the world that we don't have that we want to have. Certainly switchable glass is something we've got our eye on or had our eye on photovoltaics. But there's no plan to do that in FY17 until we're comfortable that that technology has moved to a point where we think it's commercial.

Lamination, heat soaks, and EzyClean. EzyClean is basically nanotechnology that we can apply in the plant. You can coat glass with a coating that is 20 microns thick and basically you'll see household products sold to clean alkaloids off glass basically we're going to coat in the factory at a very low cost. A nanotechnology which is pretty unique. Very thin but basically deflects particles, so basically it stays clean by deflecting water and any other dirt particles. It's got lots of applications be that in commercial windows, be that in your residential shower for example.

Then our last bucket is we've got to be Asia Pacific low cost. Imports are alive and well. We designed Metro's back engine engine plants to be able to live with Asia Pacific low cost, we visited their plants. Our throughput advantage in waste minimisation being ahead of Asia is how we're going to win and so that will become more of a focus.

So going to slide 14 - what's the future? Our operational priority is to drive top line growth in category share. I think we've seen a little bit of that. We see that continuing in Retrofit, in windows, in commercial. Our DGU market share increased by 3%. We see that continuing. We've invested in our channels to make sure that we can deliver residential internal fit, with an end-to-end supply that competes with imports. We think that import game is going to change. You're probably all reading papers around some of the quality issues that imported glass has.

Deliver manufacturing excellence, service and cost. We've got record levels of volume. We see that continuing. We've got a reasonably good handle on where we see volumes going. So we're stretching our plants for those volumes. We're really looking for operational leverage in FY17. We’ve finished with all of the start-up bumps in the night now we want to run what we've got. But it is a learning curve. We've obviously invested time and capability to deliver continued product leadership. Auckland factory is performing to expectation but there's still plenty of gas in the tank. Tonnes left to do in Auckland. Customer service levels have got to reach our standards. They're tied into the industry. We've got to continue to make sure that our investments in equipment and systems pay back in terms of health and safety.

We're going to capture an increasing share of the commercial market. Our forward book is strong. We've got to continue to harness that offer. We've got to make sure that the New Zealand window industry - you could sort of say there's a New Zealand incumbent who makes commercial windows and then there's Metro and our eco system of guys who do it. We've got to make sure that eco system grows because the New Zealand market is going to grow really quickly. We need to make sure that our capacity and commercial windows can keep up. This is an everyday focus for us.

We have been very pleased with Retrofit. Double glazing revenue obviously grew 39%. So if you remember we were 26% at the half year and we finished at 39%. It says that the second half was a significant step up. We're going to continue to invest in market development and our infrastructure around the rapid growth. We see that continuing. We certainly don't see 39% [growth] continuing but we but we would like to be closer to 30%.

We still think we've got the majority of the market in retrofit. We're going to use our second tiered brands to make sure that we've got two quotes on the table in a consumer's home. We've got growing pains, there's no question. Parts of our business are doubling in size which - I think when you're running a business and you're growing at sort of 30% - 40% and some parts of it growing at 100% you do get growing pains. What I would say to you is we've always focused on top line revenue in Retrofit at the expense of profitability. We will continue that strategy. Retrofit, we like the systems and processes we’re developing.

We've been on TV this year with unprecedented leads, enquiries and growth especially in Auckland. We've got all the growing pains that come with a business that's growing at 40% compound annual growth. In Auckland our compound annual growth is over double that so you can imagine the Auckland business is doubling its size every year or so. We mentioned at the AGM, we believed the business would double in size from NZD10 million to NZD20 million inside three to five years. We think we'll be well inside that time frame as we look today.

Remember our long term aim is to - and we are a cycling stock. It doesn't look like the cycle is coming off in the next 24 months or further. But we want to have at least NZD30 million or NZD40 million of our revenue in Retrofit which we think will be counter-cyclical. That's what it looks like. So Metro is continuing to invest in counter-cyclical revenue. That's why our strategy around making sure the top line grows at the expense of bottom line, continues to be our focus. Now at some stage the business gets under control and delivers really good returns. I think the good returns are there.

So my forecast would be really good market conditions, very good backdrop. We like our commercial book. We see that book getting initiated. We see the book of business growing in the short term but we see June going forward as I was saying to unwind that book and start to execute the jobs. We like the Auckland play upside. We think we're pretty much over all the bumps in the night. We push all the buttons every day. Then we see really good prospects for the next 12 to 24 months. We see further than that but I guess you never know. But certainly in the next 24 months Auckland is going to be strong. So is the Upper North Island. We see Canterbury rebuild changing to commercial. We are well positioned. We see the rest of the South Island growing. I've been very impressed with the Lower North Island growth in the last 12 months and what we've got going forward. From a backdrop [perspective], very good. That would be my reinvestment in Metro. So, questions?

Operator*: Thank you. If you would like to ask a question at this time please press star 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the* *queue by pressing star 2. Again, please press star 1 if you would like to ask a question. We now have our first question from Doug Macphillamy from UBS. Please go ahead.*

Doug Macphillamy (UBS, Analyst): Thanks. Good morning. Just a few questions. Thanks guys. Firstly on the top line growth side of things Nigel. I guess it's a little bit confusing around some commentary that you're making around industry constraints yet the last four months are looking like they're kind of tracking almost ahead that line of best fit. As we're looking to FY17 I guess do you see those industry constraints capping out the ability to match your top line sales to what you're seeing in the overall market?

Nigel Rigby: No we're pretty - yeah the issues in the last four months has made our order profile extremely choppy. But to answer your question, no, we see the industry being fine to grow - we're seeing consistent growth as we've experienced. We don't think it's going to get in the way of our consistent growth, no. But yes in the last four months the supply of windows be they aluminium or hardware, has been choppy, really choppy. It throws our order profile all over the place because as the fabricator gets bottlenecked the glass purchasing gets whipped around. But we don't see that - that's starting to work its way out. We're pretty confident. We're obviously very much involved in capacity and understanding of the window industry and what it can and can't do, how these fabricators and how related they are. So we're pretty much in tune. We don't see that being - as best we know today - a significant constraint on continued growth.

Doug Macphillamy (UBS, Analyst): Sure thing. Gross margins look like they held up pretty well. Do you mind just walking through a few comments on the environment for input costs around glass and just the price increases that you put through over that 12 month period and how you envisage that pricing outlook over the next 12 months?

Nigel Rigby: I'll take a bit and then John will take a bit. Yes, gross profit was up six months versus six months - 1.5%. So in the first of the financial year we're 51%. In the second half we're 52.5%. We like gross profit so we like what's going on there. Three things we obviously done - one is we're relatively adept at procurement and we - just like if you're a New Zealander you're worried about milk. The commodity market has had a realignment. Our procurement guys have done a nice job of ensuring that our input costs of glass have come down. That's one. Two - we had a price increase in January which stuck. That offset to some extent the 27% decline in the New Zealand exchange rate. Remember we're still operating under a 12 months forward hedge. Then we're starting to see gross profit even though we've added a tonne of glazing costs we've done okay. We like our gross profit.

John Fraser-Mackenzie: I guess to add on to Nigel I think on balance the price increase has offset the exchange rate which is kind of how we set it and what we want it to do. So the gains really in margin are through the plants and through our labour productivity in the plants are the main source of that change. Talking to the comments on - in the year ahead there will be some opportunities on raw material costs. But again that's going to kind of fold into the - as our hedges unwind - we have some very strong hedges. So that will help maintain us where we are.

Doug Macphillamy (UBS, Analyst): Okay. Can you give us any detail on the hedging position in terms of FX over the next 12 months? Obviously there's a pretty material part of the cost base to take a view on for gross margin looking forward?

John Fraser-Mackenzie: Yes we are. We have continued our policy of hedging out through the year. We're probably hedged at slightly below today's rate. So we're probably at USD0.67 on average against the US for next year, somewhere around there. Then not to forget that probably 80% of our purchases are US and the rest are in Euros. The Euro is pretty stable so there isn't much impact on that. But probably not far off spot really - today's spot is where we are for the rest of the year.

Doug Macphillamy (UBS, Analyst): Gotcha. Just my - one of my last questions was around the uplift in administration expenses. That was - I was a fair way out on that number. Obviously you walked through the distribution and glazing related expenses which were a little bit higher, but just on that admin expense line, do you mind just giving us a little bit more detail on that?

Nigel Rigby: I think that was you John, wasn't it? **John Fraser-Mackenzie**: Ha, yes it was. In the first half we had an over accrual of incentives coming through from last year where we didn't pay out all of our incentives. So that came in the first half where we weren't accruing anything on incentives. We have accrued them in the second half so that will be about half of that increase, Doug. Then the other changes are bits and pieces to be honest. We had some slightly higher legal fees and professional services. Part of that is some consultancy work looking at our IT systems, so kind of what the next three to five years, what we need to be doing with our IT systems. That was kind of another probably another quarter if half was incentives. Then the other bits were bits and pieces really.

Doug Macphillamy (UBS, Analyst): Gotcha. Maybe another way to ask - should that be the base that we go off then for our forecast moving forward?

John Fraser-Mackenzie: Yes, I would say that the second half is probably representative of what it will be going forward.

Doug Macphillamy (UBS, Analyst): Gotcha. Okay, thanks for that guys.

Operator*: We now have our next question from James Bascand from Forsyth Barr. Please go ahead.*

James Bascand: (Forsyth Barr, Analyst) Thanks moderator. Good morning Nigel, John, Andrew. Thanks for that presentation. A couple of questions from me as well. Firstly on the revenue line. You split out Retrofit at around NZD14 million for us. Can you give us an indication or put some numbers around where the residential versus commercial revenue lines came in?

Nigel Rigby: No James we don't split it out. Any number I gave you would be purely an intuitive estimate. What I can tell you though is that our commercial business grew but nowhere near what we expected.

James Bascand: (Forsyth Barr, Analyst) That's a function of the pipeline building up and the work not coming through as fast as you expected?

Nigel Rigby: Yes, as you can see in the book of business - we didn't need much of the book of business to unload, just 15% of it would have helped. Look it is an annuity fund - five years to some extent but we don't slice out residential. We sort of chop it up into chunks a little bit different than that.

James Bascand: (Forsyth Barr, Analyst) Okay thanks. Thinking about then - you've obviously put a lot of emphasis on building up the glazing and the glazing capability. If the commercial pipeline starts to drop away or doesn't come to market how easy is it for you guys to take out the costs there? What are the contracts that the glaziers are on?

Nigel Rigby: Pretty standard - no special long term contracts. So pretty easy. We run a duel model. We have contractors and we have employees. We actually have a lot of - we actually theoretically have a lot of flexibility down if we so choose to use it.

James Bascand: (Forsyth Barr, Analyst) Okay.

John Fraser-Mackenzie: James on that so probably about a third of our glazing cost is sub-contracted and then two thirds is internal.

James Bascand: (Forsyth Barr, Analyst) Okay great. Thank you. From a CapEx perspective you've kind of indicated that from a putting equipment into the factory perspective you are pretty much there if not there. What about from an acquisition point of view? We've seen three small acquisitions over the past 12 or so months. Are there still more channels or regions that you want to move into?

Nigel Rigby: These are all pretty small. We've got a couple more proactive ones that we've got on the docket. There's nothing sizeable though, you're not talking millions. We have had a combination of opportunistic scenarios. I mean we knew the Ultra business was in trouble. We just made a decision there. We converted that. Similarly the Mint thing. We knew that was in trouble. We were pretty opportunist there. There are a couple more proactive ones but other than that no we don't see a lot. We like our channel [to market strategy]. We're going to try a program in Auckland. We'll open up two glazing hubs on the North Shore and in South Auckland as a pilot for how we service the market better. We're building that now. A glazing hub is a bit of a different model than we would normally use as a Metro Direct or one of these bolt-ons. So yeah we'll continue to invest in downstream channel plays that get us closer to the builder and the glaziers, but nothing substantial.

James Bascand: (Forsyth Barr, Analyst) Okay excellent. Thanks very much guys.

Operator*: We will now take our next question from Kar Yue Yeo from First NZ Capital. Please go ahead.*

Kar Yue Yeo: (First NZ Capital, Analyst) Thank you. Good morning Nigel, John and Andrew. A couple of questions please. Firstly just trying to understand the amount of revenue your existing distribution and glazing cost base could accommodate as your revenue base continues to grow given you in essence increased your capacity ahead of the revenue curve hitting your P&L in terms of billable revenue. Because if I look at the distribution and glazing costs revenue as a percentage - sorry as a percentage of revenue, that cost line has risen from roughly around - from 17% in the first half of 2015 financial year to now close to 19.5%. So some colour on that front would be helpful. Secondly in the context of CapEx going into FY17, John, where do you expect that to settle to now given that you're sort of through the bulk of your major investment components?

Nigel Rigby: Okay, I'll go the glazing one. We feel pretty comfortable with the investment we've made in glazing. Probably the only area we're looking to fill out is our ability to project manage. That's something we're working on now. But we don't see that growing a tonne. We obviously have an internal target of what we think we're going to sell. We think we're well covered in glazing to cover that revenue. So yes, I don't think we're going to see it, yes. So over FY17 I don't see a big build in glazing. I think glazing has the ability internally to manage the revenue we've got targeted. The only area I see us investing in, is the project management and accuracy, but not a tonne of money in that.

Kar Yue Yeo: (First NZ Capital, Analyst) So Nigel, in the context of glazing what have you added that you feel, if revenue didn't grow and if you stripped that out, would represent cost savings for you guys going forward? A hypothetical question obviously.

Nigel Rigby: I would say plus or minus a couple million.

Kar Yue Yeo: (First NZ Capital, Analyst) Great. Thank you. John on CapEx, thanks.

John Fraser-Mackenzie: Kar Yue just on CapEx will definitely end up below this year. One of the last historic pieces we need to complete is on our vehicle fleet. So we do still have some replacement of old vehicles. We're probably won't be back down at kind of five million which would have been our ongoing at the time of the IPO. We would probably be - probably between seven and eight this year, in that region. Then most of the kind of historic bits would be caught up I think.

Kar Yue Yeo: (First NZ Capital, Analyst) A final follow-up question in terms of guidance - I appreciate that you probably won't be giving guidance today until your AGM in August. But in the context of top line growth Nigel, John and Andrew, would you be comfortable with a basically - for revenue growth for your business - to mirror that of what we're currently seeing in terms of value of total building work across res and non-res in New Zealand that's been consented through to the end of March which amounts to about 10% or 11%?

Nigel Rigby: What I can say Kar Yue is - and I guess you'll draw inference from what I'm saying - we feel very good about the market conditions. We're seeing, as you see on slide 9, our nine month lagged starts. So yes we have an idea of nine month lagged starts. We feel very comfortable about the market conditions we're operating in.

Kar Yue Yeo: (First NZ Capital, Analyst) For that to be mirrored into FY17 in effect?

Nigel Rigby: You could draw inference from that I guess.

Kar Yue Yeo: (First NZ Capital, Analyst) I appreciate it. Thank you.

***Operator**: We will now take our next question from Stephen Hudson from Macquarie Securities. Please go ahead.*

Stephen Hudson: (Macquarie Securities, Analyst) Good morning guys. I just wondered if you could talk to - and sorry I missed part of the call so you may have already covered off on this - but your DIFOT levels at your Auckland plant versus target. I recall - I think you saying in the last couple of calls that part of the NZD4 million to NZD5 million that you plan on realising in terms of cost out at that plant would be dependent on you hitting those DIFOT targets. So that would be the first question.

I guess the second question is just around Viridian. We've heard a little bit from CSR around a general unhappiness with their performance in Auckland as they consolidate their plant operations there. Could you just talk us through to what extent you benefited from that and may continue to benefit from that and into FY17?

Nigel Rigby: Sure. In terms of Auckland DIFOT - as we've signalled we gave the plant the 2015 calendar year just to absorb automation and the gravity of moving from what was a very basic glass line to a pretty sophisticated engine. Then in the middle of that we put in a Forvet [edge-working] machine which sort of threw in another curve ball again. Then as we explained in January we installed the heat soaks, laminators and digital printer. We started optimising Auckland at that stage. We've carried through that. In fact we just had a 14 day blast where we tried to run it in the sequence we ultimately want to run it end state. We really liked what we saw. We're doing it in parallel. So yes there's no question in FY15 we unconstrained the plant on labour, in the drive for DIFOT. Now we're moving gears to say we can get both. That's the program we're initiating now and seeing some pretty good throughput upticks. Our whole focus in this quarter, that being April to June, is to twist our model around to run the sort of program we want to run. Now we feel way more sure and now - all the automation and software gremlins are basically known and we can work around them or they're fixed. We feel pretty confident about DIFOT and delivering both. We're going to deliver both. We've got a plan to deliver both. We’re in a weird spot now where actually - to get the efficiencies we need throughput. When we get the throughput we get DIFOT. So they're both now interlinked in the stage we're in. We'd like - there's no question - as John said we got a bit of a taste for that in the second half, not a tonne, but a little bit. But now we're on the case because they both now linked.

For Viridian - what do I say about Viridian? Yes it will benefit. There's no question. They're moving to a new box across - we could throw a stone to them actually as you guys probably know when you come visit. That's an enormous agenda they've set themselves. They're basically going to relocate two plants in the middle of the year, right now. I think they were going to do it in April. The sort of customer communication out there they're going to do it progressively through August. They're going to do it in the middle of the year, basically shut all their existing facilities down and move their gear to their new box. They bought very little new equipment so it's going to be quite a tricky program for them to execute. Things haven't been going that flash for the last 12 months I would think. Yes it will be a very tough program for them to relocate a plant to a square box which is - as you see from our place is not the ideal way you'd lay a building out. It probably was a good idea in 2009 when they originally signed up. Probably now they look at it they probably don't think that's so great. But that will be a very very difficult agenda. I would not do that myself. I think that's too hard. I think moving a plant in the middle of the year in this type of market is a hell of a risky adventure. I would - I'm just giving you my opinion - I'd wait until Christmas when the industry calms down and you can bite it off. But they're going to do it now I imagine. So that will be very challenging. There's no question we've got our eye on - we're racing to get throughput out of Highbrook for the anticipated opportunity that may or may not eventuate.

Stephen Hudson: (Macquarie Securities, Analyst) Okay, that's useful. Thanks Nigel.

***Operator**: We will now take our next question from Doug Macphillamy from UBS. Please go ahead. Please go ahead sir. Your line is open.*

Doug Macphillamy: (UBS, Analyst) Sorry I was just on mute there guys. I may have missed it, but have you provided where the actual DIFOT in the business is tracking in terms of the number? I think it was 83% in the first half of FY16 and in September you guys had it running up towards 89%.

Nigel Rigby: Relative to the prospectus we moved our internal DIFOT mathematics. So we need a bit of history on that. We haven't provided DIFOT as we would normally because with our internal mathematics it moved around. Obviously with Highbrook coming in it changed the drivers. Suffice to say though that we did make comment that it's below our expectations. Our internal target was not met as we've grown volumes. We've also changed some of the mathematics around how we calculate it, to actually make it a bit more difficult for Metro to hit it because the mathematics were all designed around what our customers experience, not what we like. We'll see a bit more history on that and then we'll have a look at sharing it.

Doug Macphillamy: (UBS, Analyst) Just a comment - I mean the tax rate was quite low again in the second half. How should we think about that? In FY17 should that normalise back up to 28% John?

John Fraser-Mackenzie: Yes Doug it should. The one thing we have an amortisation charge on customer lists of about NZD1.5 million a year which isn't tax deductible but the rest of it is all at 28%.

Doug Macphillamy: (UBS, Analyst) Gotcha. Just a few other questions around the Auckland plant if possible. You've talked previously around a key constraint being reconfiguring the software and upskilling staff. Just some comments on how that's going. It looked back at the first half result like you had retained a little more in terms of headcount than you'd previously been expecting. Have you been able to unwind that, re that being quite a big part of the cost outs that were realisable up front? Or have those heads remained in the business beyond the transition?

Nigel Rigby: Yes, in the second half we have pulled heads out. That's just by natural attrition and the normal course of the game. As part of our gross product percentage increase from 51% to 52.5% is, our plant costs have been coming down at Highbrook. We measure on a weekly basis on how many metres squared we deliver versus the dollars we spend. It's been getting better in the second half. We see that trend continuing. So yes we measure it on hours now rather than heads because most of the heads have come out. But you don't actually save any money until you save the hours. We might have reduced heads; they're just putting in more hours. Over the second half we did see an improvement. We see that continuing. We feel pretty comfortable about where we're going to go at Highbrook.

Doug Macphillamy: (UBS, Analyst) Gotcha. So looking into FY17 have most of the realisable up front, call it easy wins from a cost perspective, from the Auckland plant, been realised now? Or do you expect a few more benefits to flow through beyond the efficiency improvements in FY17?

Nigel Rigby: Yes I think we've got some quick wins. Now we're in the sort of the more optimisation phase. I think the quick wins are over but I think the more medium term wins which is all about throughput and flexibility and how we sequence it, there's a bunch more in there - I think yes I think there's plenty of operational leverage. I think we're going to see our revenue growing. I think we're going to see Highbrook's plant costs flatten out. Yes, within a year we're going to get plenty of operational leverage this year. How much they will drop, that will be a question that we'll have to ask but we certainly wouldn't be anticipating Highbrook - we'd be expecting them to grow fairly strongly and the costs to be flat. We will get a decent chunk of operational leverage this year.

Doug Macphillamy: (UBS, Analyst) Excellent. Thanks guys.

Operator*: As a reminder if you would like to ask a question please press star 1on your telephone keypad. We will now take our next question from Kar Yue Yeo from First NZ Capital. Please go ahead.*

Kar Yue Yeo: (First NZ Capital, Analyst) Thank you. Just a follow-up question in regards to implication for gross margin on the back of weakening FX rate at your expense. For Nigel, do you think you would need to consider another round of price increases sometime in the next six months to, other things being equal, maintaining your 52.5% margin?

Nigel Rigby: No. It doesn't mean that the industry won't - it doesn't mean that the industry won't need price but speaking from a Metro perspective we've obviously set our sail now. We've set it on our procurement and FX. We feel pretty comfortable about the year. At this stage we've not factored that in.

Kar Yue Yeo: (First NZ Capital, Analyst) Great. Thank you.

Operator*: There are no further questions at this time sir.*

Nigel Rigby: Alright, thanks guys. **John Fraser-Mackenzie**: Thanks all. Nigel Rigby: See you in the next few days.

Operator*: That will conclude today's conference call. Thank you ladies and gentlemen. You may now disconnect.*

END OF TRANSCRIPT