METRO
PERFORMANCE GLASS

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METRO PERFORMANCE GLASS LIMITED
ANNUAL SHAREHOLDERS' MEETING
24 AUGUST 2016

ADDRESS BY SIR JOHN GOULTER, CHAIRMAN

Overview of the 2016 financial year

FY16 was a year in which Metro Glass achieved strong earnings growth, with the Company benefiting from operational improvements and from continued growth in housing and commercial construction markets.

The New Zealand construction industry is now into its fifth consecutive year of growth and one of the key challenges for industry participants is to grow their capabilities at a fast enough pace to meet the increased demand. Having said this however, there is no doubt that continuing constraints remain present in the industry today. In the 2016 financial year this impacted Metro Glass through certain supply shortages and ongoing execution delays, particularly in the commercial construction market, with considerable work won, largely yet to commence.

That said, Metro Glass completed its first full financial year as a publicly listed company having delivered a strong result, while continuing to invest to ensure it is well positioned to benefit from the significant market opportunities that it sees emerging.

Our business model is driven by customised product, short lead times and a broad product range that requires a flexible approach to manufacturing. Using this model, the company increased its market share in the residential double glazing market by an estimated 3% and grew its commercial order book by 70%, up to $27.0 million as at 31 March 2016. Additionally, our Retrofit double glazing business has continued its rapid development, offering strong prospects for long-term, counter-cyclical growth.

Last month, we paid a final dividend to shareholders of 4.0 cents per share (fully imputed to New Zealand shareholders), taking total dividends for the year to 7.6 cents per share. This equated to a gross dividend yield of 6.6% and a payout ratio of 64%. Such payment reflects the Directors' confidence in the Company's performance and future prospects.

Nigel in his address will provide additional detail on some of the key operational achievements you see on the slide behind me.

Board Changes

I would like to briefly touch on the changes made to the Company's governance structure during and subsequent to the financial year. Firstly, Gordon Buswell was appointed as an independent director in October 2015 bringing to the Company more than 25 years' experience in the building and construction industry.

Secondly, Michael Alscher resigned from the Board in June this year. Michael was the representative of Crescent Capital Partners Limited, who played an integral role in the company's journey leading to its IPO in July 2014. After Crescent Capital sold its shareholding in the Company in June of this year, Michael decided it was an appropriate time to resign from the Board.

We are currently considering potential candidates to fill the vacancy caused by Michael's resignation and once an appointment is made, we will obviously inform shareholders. All will have the opportunity to formally elect that Director at next year's Annual Shareholders' Meeting.

Australian Expansion

Before I turn to the Company's outlook, I would like to provide an overview of the Company's decision to expand its reach into Australia and acquire Australian Glass Group.

On the 12th of August, Metro Glass announced that it had entered into a conditional agreement to acquire Australian Glass Group the third largest glass processor in Victoria and New South Wales, for the consideration of $43.1 million Australian dollars.

AGG was founded in 2008 and has glass processing plants in Melbourne and Sydney that supply double glazed glass units, custom laminates and toughened safety glass for both residential and commercial projects across Victoria, New South Wales, Australian Capital Territory and Tasmania.

This acquisition represents a significant strategic step for our company and we are confident that AGG and the Australian glass processing market more broadly, represent an attractive growth opportunity for Metro Glass long term.

While the New Zealand construction industry is currently very strong, we do acknowledge it is cyclical, and a move into Australia provides the Company with a long term opportunity that is well aligned to Metro's core competencies.

We have been looking at the Australian market for some time, and an opportunity to acquire a strategic position in the market, came up somewhat earlier than we had anticipated.

AGG importantly has a strong management team which will ensure that the our NZ management can remain highly focussed on building the capability and service offering required in NZ to further benefit from the domestic opportunities that lie ahead of us.

Outlook

In respect of our financial outlook, I am pleased to say that Metro Glass has started the financial year well, and continues to benefit from the strong construction market in New Zealand.

To this end, we expect the current year to provide a marked improvement on our previous year's result.

Within that expectation, I would highlight that on a year to date basis our Retrofit double glazing business has continued to grow at similar strong levels to last year, and that the Company's forward book of commercial projects has also grown modestly since the financial year end.

Australian Glass Group is currently generating annual sales of circa $45 million Australian dollars and earnings before interest, tax, depreciation and amortisation (EBITDA) of circa A8 million Australian dollars. If the acquisition is formally completed at the end of this month, Metro Glass' FY17 results will then incorporate 7 months of AGG earnings.

The transaction will be debt funded and we will be facing increased interest costs as a result. The Company will have also incurred one off transaction and advisor costs of approximately NZ$1m, which will be expensed in the FY17 year.

With reference to the current housing market, I note that the Auckland Council last week confirmed the Auckland Unitary Plan, which is essentially the Auckland Council's new planning rulebook.

This Plan allows for significant intensification within the city limits and opens up more rural land for housing. The Plan is targeting 420,000 new dwellings to meet the demands of Auckland's growth over the next 30 years, which is a large uplift when compared to the number of dwellings that were being targeted only three years ago.

Should growth of this kind occur in Auckland, it is clear that the future of Metro Glass is looking bright.

Conclusion

To conclude – I would reiterate that the Company has made sound progress since Listing, and continues to do so. The NZ construction industry is expected to continue to thrive and Metro Glass continues to be focussed on continuing to build the capability, the team and the service offering to benefit from the extended opportunity that now lies in front of us.

On behalf of the Board, may I say that we have been pleased to see a significantly improved share price of late, and that we remain more than confident that your company is in excellent shape to address all future challenges.

ADDRESS BY NIGEL RIGBY,
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Overview of the year

I'd like to take this opportunity to update you on the Company's operational and financial achievements, and Metro Glass' business strategy as we look into the future. I'll then explain our thesis for entering the Australian market, and the opportunities we believe this move will provide.

Market backdrop

I'd like to start with an update on market backdrop, which is currently very favourable for Metro Glass. Construction activity and building consents have recovered to levels last seen prior to the global financial crisis as the sector benefits from record net migration, low interest rates and a historical residential under-build. We see no sign of this momentum slowing in the immediate future.

The historical correlation between Metro Glass' revenue and 9 month lagged residential consents is still fairly strong. Metro Glass' sales have recently begun to diverge from the line of best fit over time as Metro Glass' sales mix includes more commercial and retrofit revenues that are not related to new dwelling consents.

As you can see from the chart, our FY16 revenue growth of 10% outpaced the 8% growth suggested by lagged consents, and hence the most recent dots are above the line of best fit.

The Auckland residential construction market in particular continues to be supported by a long existing underbuild and current record levels of net migration. The Government and the Auckland Council are looking to support the increase of housing supply through initiatives like the new Unitary Plan, and we naturally see this market and surrounding regions as a huge opportunity for Metro Glass going forward. With the automation of our Christchurch and Auckland plants completed, we are confident about the Company's ability to meet demand in the medium term.

Commercial construction markets are fairly lumpy, but we continue to see a significant pipeline of projects both consented and yet to gain consent, particularly in Auckland and Christchurch.

As Auckland and the rest of the country develops, we think that it is important that appropriate building standards and associated regulatory controls are well maintained. For example, there is currently no mandatory third-party certification of toughened glass imported into New Zealand. This means that a consumer has no way of knowing if the glass in their imported shower or balustrade has actually been toughened – until the glass breaks. Unfortunately there have been recent cases in New Zealand where this has resulted in serious injuries.

As shareholders, you should get significant comfort that Metro Glass' factories are routinely independently audited and certified by Bureau Veritas who is a global leader in auditing, inspection and compliance certification.

Review of operating performance in FY2016

Turning now to Metro Glass' operating performance in FY2016, I am pleased to report that the Company made good progress on its operational priorities for the year.

Firstly, the company processed record volumes in all four of its plants, and increased both its revenue and its market share of residential double glazed windows.

Metro Glass continues to target both a service and cost leadership position through manufacturing excellence. In addition to the strong volume growth, the company also achieved improved labour productivity across its manufacturing sites, with the new Auckland plant in particular beginning to deliver tangible cost savings. That said, the company still sees further opportunities to drive continued plant optimisation.

Customer service levels, as measured by the proportion of orders Metro Glass delivered in full and on time (DIFOT), were variable and below our high in-house standards in the financial year. This performance while disappointing reflected the pressures imposed by record glass volumes and the growing demand for high-specification glass which is more complex to process. It also reflected external market constraints including disruptions to the supply of certain materials.

Additionally, Metro Glass sought to drive its Retrofit double glazing business, which offers to underpin the company's longer-term earnings. These efforts were rewarded with a 39% increase in revenue and the company expects to maintain this strong momentum into the future. Investments have included online sales tools that assist with quoting retrofitted doubled glazed units, as well as a significant brand advertising campaign.

The company also continued to develop its distribution channels and customer service capability through the year. These efforts included three small bolt-on acquisitions which will help us service our customers in those respective regions.

Finally, the company also made important investments in improving health and safety, through new equipment, systems and processes which delivered strong results. As always, it is critical to us that our staff return home safe, every day.

The company is continuing to target a greater share of the growing commercial construction market and its positive progress can be seen in the 70% growth in its forward order book of commercial projects. In anticipation of this growth, it has invested significantly in glazing capabilities and resources ahead of the execution curve. This was one of the key drivers in staff numbers which increased from 750 to 800 during the year.

To help to visualise Metro Glass' expanding commercial offering, you'll see behind me a number of recent commercial projects we have completed.

Financial results

Now I'd like to update you further on the Company's financial results. These numbers have been explained in detail in the 2016 Annual Report but I will cover off the highlights for you today.

Annual revenue grew by approximately 10% to $188 million, when compared to the prior 12 months on a pro-forma basis. This growth was achieved despite external industry constraints, including certain supply shortages and ongoing execution delays in the commercial construction market with work won largely yet to commence.

Gross profit margins improved during the year as the company realised efficiency benefits in its four glass processing plants. However glazing costs increased reflecting the company's strategic decision to build its glazing capability in advance of executing its commercial forward order book.

Net profit after tax of $20.5 million, which was within the guidance range we provided.

The construction and commissioning of the Auckland factory brought to a close the company's recent capacity expansion programme. During the year the company invested $11.4 million, with major investments in new capabilities including market-leading edge-working, digital printing and lamination capabilities for the Auckland processing plant and the continued upgrade and expansion of the company's vehicle service fleet.

Gearing levels improved to 22.7% as at 31 March 2016 from 24.9% in the prior year. This put the company in a strong position with adequate financial flexibility to fund future growth opportunities – as we have now done with the Australian Glass Group acquisition.

Australian Expansion and AGG

As I said to you at last year's shareholders' meeting, Metro Glass has a number of opportunities to grow and expand outside of the core New Zealand glass operations. The Company had a strong balance sheet at the end of FY16 and we were willing to consider potential acquisitions that make strategic sense, met our strict acquisition criteria, and would generate increased shareholder value.

AGG is a strong business as it stands today, and we expect the acquisition will be accretive for Metro Glass on an earnings per share basis from its first year.

The Company has studied the Australian glass processing market for some time and we see a number of significant opportunities for Metro Glass. In particular we see double glazing penetration gathering significant momentum in cooler climates like Victoria in the short to medium term.

Metro Glass produces more double glazed units week to week than any other player in Australia or NZ and has developed considerable manufacturing and distribution core competencies, which combined with our expertise in processing high performance glass will benefit the AGG business and its customers.

Having undertaken significant due diligence, we believe that AGG is a strong fit with Metro Glass, and proves the ability for us to leverage key core competencies across both markets.

AGG is a well-established business with a reputation for delivering excellent customer service, and provides the opportunity to gain a scale position in our preferred states of Victoria and New South Wales.

The Victoria business is already focussed on double glazing and window fabricators, with recent capital expenditure also intended to increase capacity in this area.

The New South Wales business provides a more diversified product mix, with an increased focus on processed toughened glass and custom laminates, that are highly prevalent in that region.

As you can see from the diagram on the right, AGG's operations are focussed on glass processing only at this stage, providing additional opportunities for Metro Glass to bring experience in other product or service areas over the longer term.

One key point to recognise is that AGG currently has very limited exposure to the more volatile multi-residential dwelling market, which as you can see from the charts in the lighter blue is running at very high levels.

AGG's specific focus areas of detached dwellings and alterations & additions have a relatively stable growth outlook, which coupled with the growth of double glazed windows and higher specification glass provides an attractive market opportunity both in the short and long term.

Market forecasters are anticipating a cooling in detached dwelling approvals in the next couple of years, however overall the market is expected to grow at about its 10 year average over the next 6 years to 2022.

Metro Glass' strategy and the year ahead

To finish up, I'd like to touch on Metro Glass' strategy and what we are focussing on this year, much of which I've already touched on today.

Metro Glass' business model and competitive advantage is built upon world-class glass processing and logistics capability, industry leading customer service, product leadership and cost competitiveness.

We deliver made-to-measure glass from Kaitaia to the Bluff within 48 to 60 hours of receiving an order – and we do this every single day.

As we look to 2017 and 2018, the New Zealand team will focus on a number of identified product and distribution opportunities. Within this, we are particularly focussed on proactively understanding the broader market changes such as the increase in multi-residential developments, particularly in Auckland under the new Unitary Plan. These types of macro changes will give rise to new markets and we are constantly reviewing our business model to ensure we compete.

With regard to manufacturing or processing, the 2017 financial year will revolve around optimisation and efficiency, delivering the significantly increasing volumes while maintaining our targeted service and cost positions.

Once the acquisition of Australian Glass Group is completed, we will be looking to augment the existing AGG business and management with a number of Metro Glass' core competencies.

There are a number of great opportunities in front of us in Australia over the long term, and we will be pushing hard to ensure we achieve our objectives.

Metro Glass made significant progress this year, and will continue to be successful from focussing on customer demands and delivering market-leading products, while striving to deliver all of this at New Zealand's lowest cost.

Thank you.