

# Metro Performance Glass – 2017 Full Year Results Analyst/Investor Call

25<sup>th</sup> May 2017

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## Presentation

Operator^ Good day and welcome to the Metro Performance Glass 2017 full year results call. At this time I would like to turn the conference over to Mr Nigel Rigby. Please go ahead sir.

Nigel Rigby^ Good day everyone, in the room I've got myself, John and Andrew, and we're going to take you fairly quickly through the highlights of the presentation. We're going to leave most of the call to Q&A.

Now we're updating a new version of the presentation with an updated number around commercial, so for those of you who your screen's gone blank, it'll come back to you. We've just updated a commercial revenue number, and I'll cover that in the presentation as I move forward.

I'd like to start with slide 3. I'd like to step back and illustrate for you the evolution of double glazing and market growth we've experienced in the past decade. Over the last seven years double glazing penetration has doubled, building consents have close to doubled and our market share has increased. We've introduced Low E, which went from very low levels, and is now 20% of our double glazed units.

Critically over the last two or three years all these factors have ramped up in unison. So if I go to slide 4, I sort of walk through a traditional slide. Metro's total revenue remains fairly well aligned to the nine month lagged New Zealand housing consents.

But the relationship will diverge over time as Metro Glass's mix includes an increasing proportion of commercial and retrofit revenue. Metro Glass FY17 New Zealand revenue increased 14% versus FY16, versus a nine month lag consents of around 15%.

If I go to slide 5, residential and non-residential backdrops remain supportive. You'll see that during the year both residential and non-residential markets were strong in New Zealand, with our target markets of detached housing and alterations and additions in the south-east Australian markets were also strong.

The one exception was Canterbury where consents were down 8% as the market moves and reverts back towards normal levels of post-earthquake rebuild in residential. New South Wales and Victoria detached dwelling activity we see stable over the next year, with double glazing penetration continuing to grow.

Full year highlights. This slide lists some of the Company's achievements from the 2017 financial year, and we'll step through each of these in more details in coming slides. Overall though the Company delivered strong revenue and EBITDA growth in the year, and completed the strategic step of entering the Australian glass market.

We had a disappointing second half in the New Zealand business. Canterbury region in particular faced both slowing market activity and increased competitive pressures. That said, our financial results were in line with the guidance we gave in February this year.

Additionally you will see in the materials we have released this morning that we have provided a number of additional pieces of information about the Company to allow you to better understand the various businesses of Metro Glass.

So now, I'll pass over to John to discuss the financial results.

John Fraser-Mackenzie^ Good morning everyone, I'm now on slide 8. On this slide, we have presented a bit of our revenues into four key buckets, being retrofits, commercial glazing, and the balance of New Zealand sales being residential, and then the seven months contribution from AGG.

Group revenue rose 30% to \$244.3 million, and that includes seven months of trading from AGG. That was from a base of \$188 million in FY16. Overall, within New Zealand revenue rose 14% to \$213.8 million. As previously communicated, we have been focused on growing revenue in our commercial and retrofit businesses, and are pleased with the growth in this area.

The commercial glazing revenue we have in there, that refers to the four commercial glazing business units we run in Auckland, Bay of Plenty, Wellington and Christchurch. They will do anything from building facades through to internal fit-outs of apartments. They will also glaze larger windows and doors for residential homes and light industrial.

So on the -- it's often hard for us to know the exact end use of a piece of glass, and so there will be some element of commercial work that will end up in the residential revenue bucket. So while this is the way we will report commercial revenues going forward, it will somewhat understate the amount of glass ultimately used in commercial applications.

Onto slide nine and the full year results summary. When reviewing these it's important to note that AGG was acquired on September 1, 2016. They contributed revenue of \$30.5 million and EBITDA of \$4.7 million in the FY17 result. Obviously, nothing contributed in FY16 comparative.

We will step through the EBITDA performance on the next slide. But normalized EBITDA grew 20% to \$44.9 million. Depreciation amortization increased in the year on a kind of capital spend in New Zealand and with AGG accounting for \$1.5 million of that, that increased off a base of \$7.4 million.

The Company posted a higher effective tax rate in FY17 of 33%, versus 24% in FY16. That was due to non-deductible acquisition costs and tax adjustments relating to IPO expenses and the finalization of prior year tax positions -- that's tax positions prior to FY16. Going forward I think as we previously said, the full year FY18 will be on a tax rate that is expected to be about 30%.

Onto slide 10, the total peels back the performance on some of our internal businesses, which will help explain the different stages that some of the businesses are at. So core growth business generated an additional \$13 million of revenue. That had a contribution margin in the EBITDA (inaudible) 33%, or \$4.3 million.

We have split up three buckets from the core business, and those are existing development businesses. Those include the Auckland Commercial Glazing business, Auckland Retrofit, and two of our regional Metro Direct branches. Then we have new

distribution businesses which are the four bolts on acquisitions completed over the past two years. Thirdly, we have AGG which we acquired during the year.

So, the existing Metro development businesses added \$8.6 million of revenue in FY17. Though they were growing more than double Metro Glass's average growth rates, and they have an incremental contribution of 20%.

In the new distribution, which are channel to market businesses, generated an additional \$4.2 million of revenue in FY17. Their profitability growth was low, but those will increase the scale and improve operating capability as we spend some time on them.

As mentioned in the slides earlier, trading performance in Canterbury was particularly challenging in the second half of the financial year. That was a combination of slowing market activity and increased competitive pressures.

So with pricing and having an impact at \$2.3 million during the year. So, the Company has diversified its operations across the South Island over time, and that will partially offset the decline in the Canterbury market in the coming year.

Then finally there in the EBITDA bridge, \$1.4 million of additional overheads within New Zealand. So within that includes it an additional \$700,000 of technical capability and product development spend, which again is something that we're focused on.

To the summary of cash flow and balance sheets on slide 11. While normalized EBITDA growth was strong, operating cash flow conversion was impacted in the year by the timing of the tax payment. That saw income taxes paid increase by \$6 million in FY16 versus the prior year.

Obviously, also within there were have additional interest expense of \$1 million, AGG acquisition expense of \$1 million, and as seen in the total below a significant increase in net working capital.

The consolidation of AGG incorporated another \$6 million of working capital, and on top of that, we had some growth in debtors and some slight growth in inventory. During the year, we refinanced our borrowing facilities to a three-year term, and that was part of the debt funded acquisition of AGG. So, we've ended up with gearing at 38% at the end of the year.

In the following year, next year we plan to increase our capital expenditure to a range of \$22 million to \$24 million. Approximately \$15 million of this relates to processing equipment refresh program across the group's six plants. Given the anticipated growth in the upper North Island of New Zealand, Auckland will compromise about 50% of that. We're also in the process of commissioning a basic processing facility in Tasmania, which we currently supply from our Melbourne plant.

On slide 12 in terms of dividend. So, we've declared a final dividend of \$0.04 per share. That brings the total to \$0.076 per share for the year, which is in line with FY16, and equates to 67% of our NPATA.

With that, I'll pass back to Nigel.

Nigel Rigby^ So slide 14, commercial glazing. As discussed earlier, commercial glazing revenues grew by 23% to \$51 million, you'll see that on an updated slide that's now on the webcast. That represents 24% of Metro Glass's total business, which also includes our development business of Auckland Glazing.

Our commercial forward book remained fairly flat for the year as our increased delivery of projects matched to new contracts being won. We also continued only to take jobs matching our growing capability and experience [queue].

While we have some large jobs like Christchurch Hospital, the average size of a contracted job in the forward book is \$100,000. Commercial growth prospects are favourable over the next 12 months across New Zealand.

Go to slide 15, Retrofit. Now growth in Retrofit business over the last two years is in line with our target of 30% compound annual growth. We're comfortable with the target going forward. The business is focusing on marketing and efficiency tools as it builds profitability over time. We can continue to strongly believe in the long-term opportunity.

Development businesses. Metro Glass has a number of investments into development businesses. We see future growth in development opportunities. The four core investment areas are Auckland Commercial Glazing, Auckland Retrofit, bolstering our regional channels to market -- both existing and recently acquired.

As a group, these contributed \$2.1 million of incremental EBITDA, which is a drag on the Group's operating leverage. However, we believe these investments will reward the Company over time.

Okay, AGG Australia. We're happy with the AGG purchase after seven months, and no surprises to date. We consider that the Australian residential glass market is favourable and there's a strong growth potential for increased penetration of double glazed units.

In the acquisition of AGG that occurred on -- if it occurred on April 1, 2016, we estimate AGG would have contributed to FY17 revenues \$52 million, and an EBITDA of \$9 million. AGG's margin lags Metro Glass, but we see this as a good base to build on.

Resulting from our acquisition thesis, we see further expansion opportunities in South-Eastern Australia where double glazing potential is strong. We'll open, as John covered, we'll open a processing location in Tasmania in Quarter 2, Quarter 3.

So moving onto our sort of strategy and business model. Our business model has remained consistent over the last three years. We continue to believe that our highly customized short lead time with customer intimacy is the heart of providing strong protection against import competition.

Our base manufacturing and logistics model and automation capability underpin our competitive advantage. That will be front and center of our investments in [development businesses].

So, reviewing 2017 priorities and achievements. We've covered a majority of these achievements already. We're comfortable with our progress. Despite the volume and complexity uplifts one area we would have like to have seen more consistency and improved progress would be around our manufacturing development.

So, the key areas of focus in 2018, our key priority is to become a year of evolution of our financial year in 2017. The Company is continuing to optimize its business, make it more supportive for market conditions. We'll continue to be able to deliver volume demand by market as part of ensuring Metro's ongoing market leadership.

We will be undertaking a process equipment refresh program which will deliver meaningful benefits in FY19 year onwards.

So just finishing up with the outlook. We anticipate strong residential and commercial markets, particularly in the upper North Island, as growth opportunities -- and growth opportunities across the Tasman will underpin improved results in 2018. While keeping -- we'll continue to see opportunities to invest in capability and growth, and we're looking forward to the year ahead.

Our position is to grow in capital and profitability such that our debt remains flat for the year FY18. So, we zipped through that pretty quick as we talked about, because we wanted to leave most of the calls to Q&A, because I know you guys will be bashing your numbers and will have a ton of questions. So, I'll turn over to the moderator to lead the question and answer session.

Are you there? Come in moderator. Come in? Okay, I'll ask my own questions. That way I'll like the answers.

Operator^ Certainly, yes. I'm here.

Nigel Rigby^ Okay, we're ready for Q&A.

+ + + q-and-a

Operator^ Perfect. (Operator Instructions) We will now take our first question from Matt Henry from Forsyth Barr. Please go ahead. Your line is open.

Matt Henry^ Morning guys. Thank you. I've got a number of questions, but I'd just first like to start on the CapEx. I guess the magnitude has surprised me given the relatively new nature of the Auckland and Christchurch plants.

I sort of felt -- expected we might see a CapEx holiday. Can you just explain to me where that CapEx has been -- what it's delivering? Is it capacity or capability, and what the outlook is beyond FY18?

Nigel Rigby^ Sure. Well it's a combination of both. When we designed the plant we sort of had an idea that residential consents nationally would be around 25,000. Now back in 2012 when we designed the plant it seemed like a world away.

We've taken a view on the Upper North Island growth over the next 10 years, and the capability that we want to grow into. There are some new innovations around in glass that we see as an opportunity.

Secondly and lastly we see great opportunity for share growth in this growing market. So it's a combination of those factors. It was a chance for us to reset, rethink about where we're going, and what equipment was required, and make decisions accordingly.

Part of it is also capability. Commercial market is demanding larger units, and some of those larger units currently aren't made in New Zealand. They would have to be imported. We don't -- as we pick the profitable plants that fit our core competency, that bit of equipment leads us to buy increased double glazing size capability. So that's sort of a backdrop.

There's an element of the capital that's Australian based, but obviously the growth market for Metro is in the Upper North Island, and that's where 50% of it's going to go.

Matt Henry^ Okay, so what would this take your capacity up by?

Nigel Rigby^ We haven't released that. We probably could, but we haven't name-plated our capacity, for no other reason than just the competitive understanding. But I will take that under advice and figure out a way to talk about the capacity increase.

Matt Henry^ Okay. Thanks. A couple of other things. When we look at development projects, you highlighted that the contribution from revenue and EBITDA is less than traditional business.

Are these businesses -- do we think about them as being inherently less -- having inherently less operating leverage, or inherently lower margins, or is that just reflective of the sort of stage in the life cycle that they're at?

Nigel Rigby^ Yes, pretty much. If you go to Retrofit Auckland, it made a profit in FY16. We threw in infrastructure, buildings and capability into it and threw it into a loss. We did that purposely. Now revenue is growing strongly and we're expecting that profit to reverse in this year.

So we basically built the infrastructure before we had the revenue, because the big opportunity in Retrofit ironically is the North Island, and the South Island is a strong share of our Retrofit business. So the North Island is where the opportunity lies, and ironically that lies in Auckland where a lot of the installed houses are.

So you're right, the commercial business, we've got a very very good Wellington and Christchurch commercial business. It's very good in profitability. The Auckland business has grown significantly. I think we released the number. The Auckland business has grown by 35%, so it's growing very quickly.

We have an expectation that the commercial business in Auckland will meet our EBITDA target of the Christchurch and Wellington operations, and that would have it over doubling its margin at this point.

So yes, we think these businesses are on a learning curve. We like our Metro Direct infrastructure from now Invercargill to Kaitia. It has a lot about our scale and a lot about our logistics infrastructure. Then as we acquire those businesses and change them and move them around, their profitability grows.

We've got -- we've obviously run as Metro Direct in 10 locations, 16 in total, but six of those are branded alternatives. We greenfielded a business in Christchurch called Capital Glass. You may remember we announced we acquired the assets of Ultra.

We turned that into Capital Glass, a glazing business. That business has been growing strongly, and we feel like it's got very good growth prospects. But when you start them up they're low.

But to your point Matt, we're not investing in them on the basis they can't meet our threshold requirements, or we just wouldn't do it. We --

Matt Henry^ Sorry, I was just going to ask where are we on that learning curve? Is FY18 a year we see a step up in contribution, or is it a little bit further out than that still?

Nigel Rigby^ No, FY18 we're expecting a step up in contribution. Obviously 2017 was the year we invested in them, but no, we're not intending to grow this too much. We're not looking to add to our development business pool. We want to optimize what we've got.

So we'd be expecting performance improvement in Auckland commercial especially. The cycle's not going to last forever, and it's no use having a well-run business at the tail end of the cycle. We need it now.

Distribution businesses will take a little bit longer, but no, we'd be expecting Auckland Retrofit and commercial to be in the coming year. These are not long-term developments.

Matt Henry^ Okay, thanks. I know I'm at risk of monopolizing the questions, but just last couple of micro ones. Can you just sort of explain or break down the uplift in accounts receivable, and also explain what the significant increase in the provision is on the balance sheet please?

John Fraser-Mackenzie^ Matt, the provision on the balance sheet is -- in acquiring AGG, they've got -- the properties that they've been in, they've been in for a very long time. So we've got a provision against the make good on those. That's a significant chunk of that (inaudible) in the provision.

There's a small -- a couple of other elements of it in AGG, so almost all of that is owned in Australia. Locally in New Zealand there is movements in provisions there too, but I'd say 75% of that provision increase would be related to AGG.

Then on receivables, receivables have grown in the year. Again a chunk of that relates to AGG and obviously also to New Zealand. Part of the growth in the New Zealand receivables is around the profile of our commercial businesses growing faster than average and Retrofit.

Invariably there are retentions associated with that, which kind of push up the receivables book, and also there's some terms in Retrofit where -- which are longer than standard terms so it becomes a bit of a mix on that.

Matt Henry^ Okay. I'll leave it there. Thank you.

Operator^ Thank you. We will now take our next question from Angus Simpson from UBS. Please go ahead, your line is open.

Angus Simpson^ Good morning.

Nigel Rigby^ Hi Angus.

Angus Simpson^ Just quickly firstly on the New Zealand residential business, even if I X out the price declines in Christchurch, I'm probably getting to a revenue growth of 13% versus when I look at market growth of probably about 16% on a nine-month lag basis.

Can you give me a view on what volumes grew by in Auckland as market share changed, or did you grow above or below market in your view?

Nigel Rigby^ No, I think the year was pretty much in line with market. We obviously track glass imports, and that's been stagnant, so we haven't gained share over the last 12 months. We haven't lost share.

There is a bit of mix in there that's moving around, so we'd be pretty -- we measure obviously our performance quarterly, so we've got a reasonably good handle on share. We're a bit fixated with it actually.

So we don't think we've lost share. But as you can see from the nine-month lag chart, it moves around a little bit, so that would be our position. Volumes would be in line with what we'd be expecting.

Angus Simpson^ Thanks. Next question, just around the AGG business, revenue came in slightly above. Was that a reflection of price, volume or currency? Also margin was just

marginally below what was disclosed at the time of the acquisition. I think 17% was delivered versus 18%. I know it's quite small, but was there anything in that?

Nigel Rigby^ Okay, so let's cover the revenue for a start now. We're into a good competitive game here. Their revenue is very good, and their revenue prospects are very good. They're just like Metro was in 2012 very early in the double glaze penetration South-East. They can win a big share of a bigger pie.

They're performing pretty well on the revenue front. Obviously we've gone in and we've got some manufacturing methodology and they're good guys, so they've picked it up pretty well, but they are growing very strongly. So to your point, their revenue has been very good.

We've also invested heavily in that business. Obviously we've announced Tasmania is a bit of an expense. You might say well jeez--Tasmania really, but it's a good market. It's only one player there. Pricing's good and we've got a really good capability.

Secondly we would like to pull off some capacity off our Melbourne plant that currently supplies Tasmania, because in Melbourne we're sold out. So we'd like to -- and that's a learning curve and a capability curve there. The equipment's got a lot more headroom in it, and we'd like to continue to grow. Very good growth prospects.

Profitability-wise, Angus, it's pretty much in line with what we'd expect. I know there's going to be a bunch of questions about comparatives with other Australian glass players, but it's a good business. It's got a good basis. That's a pretty good return for a business. Good platform for us to work off.

Angus Simpson^ Okay, and then so just the CapEx in Australia. You guided just the (inaudible) at the time of the AGG acquisition. How does this change with the Tasmania fund?

Nigel Rigby^ Of the \$22 million to \$24 million, \$9 million of that is on Australia, to give you a number. So we see -- and -- we see -- I understand you guys are going to ask a ton of questions about the viability and the attractiveness of the Australian market. All I can say is we're investing in a very good base business that we like.

Angus Simpson^ Thank you. Lastly from me, I guess what's the pricing outlook for FY18?

Nigel Rigby^ We'll see price and mix shift, and we'll see some unique items that we manufacture will continue to -- I don't -- it's possible to be a blanket price. At the moment the dollar versus US dollar is not impacting too much. So I would see selective pricing [being taken] as we spoke of before.

I think commercial is one of those opportunities where we -- because you can bid price, you can move with some flexibility. We've been pricing individual categories as this market increases. There will be an element of price in the forward, but not the blanket price increases that we've probably seen over the last three years.

Our last price increase was January 2016, so a little over a year ago, but I think you'll see the industry take selective price increases, you know, as they move forward.

Angus Simpson^ Great, that was all from me, thanks.

Nigel Rigby^ Cheers.

Operator^ Thank you. We will now take our next question from Kar Yue Yeo from First NZ Capital. Please go ahead, your line is open.



Kar Yue Yeo^ Good morning. Good morning, Nigel and John. A couple questions please. Firstly, could you perhaps describe how complex this capacity and capability upgrade will be in relation to the Auckland and Christchurch plant, both in the context of the actual physical plant as well as any need to change the shift work that you currently have already scheduled over the last six months or so or have introduced over the last six months.

Secondly, in relation to outlook for FY18, are you comfortable with where (inaudible) currently sits? Thanks.

Nigel Rigby^ Okay, I'll answer your first question. The capacity upgrade, we're spending money across all plants. So in Auckland, it is about -- to Matt's point, it's about capacity uplift and it's about complexity reduction.

When we put the plant in, we automated it, but we still had some manual equipment and we had a certain amount of money we could spend and that was the end of it and we didn't actually know how quickly the market would grow and we would have never predicted 30,000 starts and we certainly wouldn't have predicted the upper North Island start position or what we perceived as the under built Auckland and the length that that could produce.

So the capital was based on capacity. It's about reducing complexity in the Auckland plant. So basically what I mean by that is we're putting -- we're taking more equipment out than we're putting in and -- so we're putting -- there will be less bits of equipment in the plant, but of course they're more highly efficient and they do more things.

So we're trying to reduce the complexity of Highbrook and it's nothing new to our thinking. We're also changing some technology of double glazed units and that's about \$1 million of the capital, which is going into Auckland and Christchurch.

We're also improving our capabilities in Wellington and Tauranga because we need strong growth in both of those markets. So all four New Zealand plants are getting upgrades.

The last bit is, there is a demand in the market for larger and larger windows and involved in that, our standard size of a window is 2.5 by 4.5 metres and we think -- we know the market is going to go to three metres by six metres.

If you wanted to go to that size, you'd have to import and we've become adept or reasonably good at producing large windows and so we're going to put in the capability of making six metre, three metre units in New Zealand, which will have long term growth, as well as the new technology in double glazing is a lot quicker and a lot more quality driven. So yes, that will end up coming into Auckland because we don't need that sort of capacity across the country. We can make that in one plant and feed the rest.

So that's a lot of it. It's about \$1 million on new technology and double glazing. It's about reducing complexity in Auckland. It's about a capacity uplift. There has been a change in standards, requiring more toughened glass as an example and it's also about capability throughout the network in a range of areas. Lamination would be one. Double glazing is obviously the base of our business, so that's the -- sort of covers that.

In terms of -- your last question, guidance. Little early in the year for us to call the ball on guidance. What I would say is in the first -- in 2017, revenue growth is closer to 10% and in the foreseeable future, we see that as a reasonable number, but in terms of the other moving parts, a little bit early after effectively a month of trading, to call that in. April is a messy month for us in as much as it was Easter and Anzac Day and I think for everybody a pretty messy month, so a little bit early to call.

Kar Yue Yeo^ Right. So Nigel, when you say 10% as a reasonable target for us to think about, you're referring to New Zealand, right?

Nigel Rigby^ Yes. I'd expect more from the Australian business.

Kar Yue Yeo^ Yes, okay, got it. Just to circle back to the reduction in complexity which then necessitate new equipment, new software I assume, to run these. Will your supplier of these equipment stay through the course to actually train up your team to use these new kits?

Nigel Rigby^ We're going to do all that in-house. So this is a change for us. They're not going to do it, we're going to do it. Because one thing we've learnt over the last two years of automation and software is that actually the guys that provide us the technology end up knowing less than we do. So we've got to be the master of our own destiny and so we will be integrating this ourselves.

Look, we've got resource to do it. We've built up a manufacturing capability over time and it's not -- what I would say as a result of that is this is not a major change. This is not a buying a whole integrated line. This is components where you put in the line.

Sure, they're a lot bigger than we had before, but they're componentry of the system. The base level software and the operating model is still the same and to your point, which I forgot to clarify, no shift changes, no personnel changes.

There might be sort of a little bit of labour reduction but other than that, one of these bits of gear take out another three bits of gear, so you end up simplifying the floor and we're going to run a bit of a strategy day early in July. We'll run through this with you guys and explain, but that's the sort of thinking.

So it's not a fundamental change. It's not like when we moved into Highbrook or Christchurch automation where it's push the button and figure out what goes. This is not like that at all. It's individual componentry dropped into a platform of operating software which is not changing. So the risks are pretty low.

Kar Yue Yeo^ That's helpful. Thank you.

Operator^ Thank you. We will now take our next question from Mo Singh from Craigs Investment Partners. Please go ahead, your line is open.

Mo Singh^ Morning guys.

Nigel Rigby^ Hi (inaudible).

Mo Singh^ G'day. Can you just give a bit more colour around what's happening in Canterbury? Obviously you had talked about some of the competitive environment there -- just how that sort of played out in the last six months I guess and where you see that landing in 2018 in terms of pricing down there and I suppose in terms of start?

Nigel Rigby^ Okay. You know, we sort of knew a couple of years ago that Canterbury would come off and so the issue, to flame the issue up, it's Canterbury residential. Our Christchurch -- sorry, it's Canterbury residential effectively. That's the one segment and remember our business has retrofit.

Commercial is very strong for us. We've got a very, very strong book of business. We've got a very good commercial business that's unaffected. So a couple of years ago we knew that this would happen and we've been diversifying out of Canterbury for some time which is -- we've got a couple of these in the development businesses. So we've got a situation

with one of our regions in the South Island has doubled its revenue. So we sort of knew this was coming.

The Canterbury market for sort of residential glass, be that windows or internal fitout, is strong. So the competitive nature is strong. We've got a new entrant there and the existing players and we've got some integrated players in there. So inevitably that affects price and the market coming off affects volume, but overall in the South Island, we're actually pretty, pretty comfortable but Canterbury prices has an impact. We've sort of said it's \$2.7 million for the year and we see further price erosion in this year but not a significant amount.

Mo Singh^ Okay and in terms of I guess, to the -- sorry, that's fine. Just in terms of I guess a little bit more around CapEx, can you give us a bit of colour around the original sort of, the big machinery and software packages that you put in a couple of years ago.

In terms of where they're at now, are you comfortable -- are they now performing to the level that you had expected or is this latest CapEx a bit of catch-up in terms of to what your original expectations were, you need to add this componentry to actually get to those levels?

Nigel Rigby^ No, no. We're pretty comfortable -- we've not enjoyed the -- two things, we're very committed to automation and we're committed to automation just because the cost position that's required and I think there's plenty of concept there that tells you, you've got to go down this path.

Our cost position has to be reducing to a level and our efficiency plus the complexity has to -- we're convinced that automation is the way to get there and we've seen enough now over two years to make that work and so we're pretty comfortable with where we're at.

Of course we thought we'd be way further ahead than we are. This capital is about simplification and it's about increasing our capability, a little bit about technology and a bit about capacity. We now have a pretty decent read on what we think the market's going to be. We have a pretty adventurous view about our share and we know in New Zealand the geographies that are going to grow and we've decided the capital accordingly.

There's also been some changes to glass standards. There's a change in toughened glass that's probably going to increase toughened volumes by 10%, which is pretty significant in the window market. So we've got to cater for that. Balustrade standards have changed and we happen to have unique technology in that and we're going to extend that.

So it's about, we've got a clearer view on the market opportunity than we had in 2012. Double glazing is now just about fully penetrated. We see a technology jump into Low E. We think 20% is going to go to 50%. We see our retrofit business growing.

We see commercial windows being larger and we think we can make attractive returns out of that and that's driven decisions around capital and those decisions are around revenue growth and share. It's not to fix up the existing plants, although it will help in simplification because, you know, that's been part of our drive. We basically want less bits of gear and run them longer and better, is the sort of (inaudible).

John Fraser-Mackenzie^ Mo I think the other point to note is that anything replaced gets recycled through the Group. So we kind of have a -- it ends up being reused in other places. So we won't be throwing things on the heap, try to get three years in other places too.

Nigel Rigby^ Yes, for example Mo, were going -- a double glazing line is going to come out of Auckland, we're going to send that to Sydney, as an example. So when we upgrade the

Company, the whole Company benefits, we're going to take a furnace out of -- you know, the South Island market for Low E is growing very quickly and we're going to double our furnace capacity for Low E in Christchurch as a result of decisions we're going to make in Auckland.

So although it seems like the capital is in Auckland, it's actually a bit of a chess match of upgrading the Company at the same time. So it's not -- yes.

(Inaudible)

Mo Singh^ Okay and just -- thanks guys. Sorry, just finally from me, the only other one was just around your gross margins for the New Zealand business.

Can you give us a feel for how they tracked from the last year to this year and obviously, with Low E growing to 20% now and your target towards 50%, do you think that that's going to bring about any pricing power or that generally, that you get the demand that potentially others wouldn't because you have a differentiated product?

Nigel Rigby^ So I think to your point, Mo you raise a good point. I'll cover the Low E and John can have a whack at the gross margin.

In the Low E we've gone on penetration pricing. So what we've tried to do is upgrade the New Zealand market to unique glass and we've very much followed a penetration pricing path. We do believe over time we'll go to a more value-based pricing model.

So you've hit the nail on the head there; we do think that penetration pricing model will come off, because we do think there's a technology advantage that we have. And the market is very receptive, especially in retrofit, to the value proposition of Low E.

So yes, we do see that. We're not planning on that in FY18 but certainly over time you're right, we're going to move from penetration to value pricing, no question.

John Fraser-MacKenzie^ Then on the margin Low E, I guess the South Island performance has impacted on margin in the second half. That would be the most marked impact from that kind of operating leverage within the factory, or labour as a percentage of revenue has dropped. So that has been offset by some additional operating leverage but it will drop back a bit on account of the South Island.

Mo Singh^ Okay. Thanks for your time, guys.

Operator^ Thank you.

Nigel Rigby^ Cheers.

Operator^ We will now take our next question from [Hiko Miller-Kajar], private investor. Please go ahead. Your line is open.

Hiko Miller-Kajar^ Yes. Hello, Nigel and John. Good morning.

Nigel Rigby^ How are you going?

Hiko Miller-Kajar^ Yes, not too bad. Yes, I guess a couple of questions. We talked I think in the meantime already but the competitive pressure and unique selling differentiated.

But yes, I still have a question regarding the developing business. I guess it feels a bit vague and yes, you say about you hope it will increase shareholder value over time, but

I'm pretty sure you have got some business cases. Could you share a little bit more with us when you expect this developing business to add value?

Nigel Rigby^ Okay. Let's go to commercial Auckland. Generally speaking, our Christchurch business was well-developed because of the earthquake rebuild. So we kitted up and tooled up with estimation and project management and our technical resources.

And Wellington has always been reasonably strong but Auckland we've not been -- our commercial business has not had the capabilities that Christchurch has got. So about 18 months ago we started building those capabilities in but we believe the commercial business is just going to perform just like the businesses in Christchurch and Wellington. In profitability terms, the Auckland commercial business is less than half of our EBITDA margins we expect out of Christchurch and Wellington.

So there's quite a bit to improve, and we'd expect that improvement over the next 12 months. So it's more a long-term development investment, it's not like a technology investment, so we'd expect that.

Retrofit is a great business. We're obviously chasing revenue in retrofit; it doesn't mean that it's revenue at all cost, because we want that business to double in size again. We've talked about that business on a doubling multiple every three to five years and we want to continue that trend because fortunately or unfortunately, we're a cyclical business and it would be great to have some diversity about our earnings.

And so retrofit revenues and the size of that business is what we're focused on, but also taking a longer-term view that says what's the profitability going to be like. So we want that business.

So Auckland retrofit, obviously, I used that as one example. We put some infrastructure in Auckland and flipped that business into loss, but we're expecting that loss to be recovered and then some by profitability into this financial year.

So we don't have any issue, it's just a timing issue, and we are looking for in excess of 30% growth in the Auckland market in retrofit as an example. So that gives you an example of the growth businesses.

We have a 16-location localized distribution businesses, of which 10 of those are Metro-branded and we see that growing, and we just acquired a Otago -- sorry, Southland Glass, and that gives us an infrastructure.

So again, we don't see these businesses as being long term; it's part of our logistics capability and our scale advantage and we'll continue to invest in them. So we're not investing in them on the basis of five-year turnarounds, not at all. So it's also a core from our strategy while we do that.

Hiko Miller-Kajar^ Okay. Thank you. I guess it's a different question, but you talked today a lot about increasing capabilities and that always sounds just a little bit distinct about automation and stuff like that, which are certainly appropriate.

But I guess coming from a different but still high-tech industry, I sort of remember that if yes, if things get complicated you need to well, better-trained staff, you need to make sure your staff is happy and things like that. But could you maybe comment on staff training, staff retention (technical difficulty) for similar businesses?

Nigel Rigby^ Sure. There's no question automation when you greenfield it as we do, we did, is tough. I've been lucky enough to do it, this will be my third time, and based on our scale in New Zealand it's a little bit more tricky.

But having said that, yes, it's difficult on staff because automation is wildly different than you'd run a normal glass plant than a manual plant. Most manual plants you have low volumes and that's fairly simple to run manual, and we run two manual plants now in both (inaudible) and in Wellington, so we've got a reasonable idea how they work. But if you want to make the larger volumes then you've got to go to automation.

It's been a tough road for our guys in the last two years, but generally speaking, my feeling would be our guys are way more confident now that they've seen the light at the end of the tunnel. We had a very good run in manufacturing in the first half of FY17, so if I take that from -- so from January through to June last year we had a really good run. We really got in motion.

But the complexity of the mix we're manufacturing took another step up and so did the volume, and it's always a chase to have your learning curve ahead of the growth curve and you sort of run in and out. So generally speaking, our turnover is lower and dropping, and that's us, more about our learning about who's going to be good for Metro and who'll enjoy it and be productive.

But as a general rule, turnover is dropping, which is a good sign. And safety record in the plant is significantly better. We've seen a 30% reduction in injuries and bits and pieces like that. So safety-wise, if that's another surrogate for culture, it's gone very well, so we're pretty comfortable. Having said that, we acknowledge it's not -- growth businesses and technology and automation is not for everybody so we've got to pick well.

Hiko Miller-Kajar^ Okay, thank you. Now one last question from my side. We talked last time about maybe some more regular reporting. I guess MPG is one of those companies which is always for a long time quiet and then there is some sort of surprise. But I guess as an investor I am glad that this time it's more positive surprise than last time.

But you indicated that you are thinking about maybe giving the market a bit more regular some performance indicators and you mentioned today that you do internally quarterly reporting. Any chances to give some of this data to the markets as well?

Nigel Rigby^ Look, you're right. You're right. In Metro we, rightly or wrongly, I -- you've actually hit a good theme, which is when we released our half-year results in November, we pretty much knew that we weren't disclosing enough about the Company. And there's this black box of Metro and everyone's saying where's the operating leverage and all sorts of conspiracy theories about what we are doing.

There's no question -- and that's probably driven by me and that's probably my -- when I look back now I could probably have done things a bit better. We only communicate to the market on half-years in our results time. We don't make a lot of -- every time we win a project we don't make a press release or things like that.

And so -- and it became clear in November that we weren't disclosing enough about Metro. So what we've tried to do today is give a taste and to your point, we're going to run a strategy day in early July and we're going to have senior management where you get a chance to tick and bash manufacturing operations, retrofit, commercial.

We're going to have a look at the backbone of Metro in terms of how do we run Metro Direct, what's our overall strategy, how do we -- what do we think. And when you -- and obviously today we've tried to disclose more.

We've split out commercial. There's some concern about commercial having large jobs, what happens if we get them wrong? Well, as you hopefully know now, the average job size is \$100,000. That doesn't mean there's not risk but it does mean we've got to book a

business that is not all huge jobs and if they go wrong or the program doesn't work, Metro is going to be in serious jeopardy.

So you're right, we're going to run a strategy day, we're going to try and have more disclosure around where we're going and what we're doing and more visibility. Now, that should be balanced off by our challenge around competitive advantage.

We think, rightly or wrongly, we've got a bit of a recipe and we're trying to keep that as confidential as we can but also acknowledging that as investors you need to know the company you're investing in and will its strategies pay off, and is it investing its money wisely and things like that. So, yes, we'll -- we've got more disclosure but more transparency.

Hiko Miller-Kajar^ Yes. I guess strategy days are certainly good. Just thinking here on my feet, I guess it's a different industry but if you look for example at retirement villages, they just give every quarter very brief their sales numbers out, and I guess the number of units sold.

And this gives the market sufficient information to know hey, it's going upwards or downwards without giving the competition any secrets. And would there be anything similar you could give? I don't know, square kilometres glass sold or whatever?

Nigel Rigby^ We'll take it under advisement. We'll take it under advisement. It's not something here on the radar screen, certainly not something here on the radar screen, but certainly we'd be using the ASM and we'd be using our strategy days as opportunities to give some of that information away.

As management we're going to hate quarterly reporting. I used to do quarterly reporting for 10 years, it's not something that -- yes, thankfully six-monthly reporting is okay. But we'll take it under advisement, thanks.

Hiko Miller-Kajar^ Okay. Thank you very much.

Nigel Rigby^ Thank you.

Hiko Miller-Kajar^ That's all from me.

Operator^ We will now take our next question from Matt Henry from Forsyth Barr. Please go ahead, your line is open.

Matt Henry^ Hi, guys. Sorry, just one quick follow-up question. Do we look at this year's CapEx as one-off, and can you give me some sort of indication about where you think your CapEx sits and what it looks like from FY19 onward?

Nigel Rigby^ Yes, I think you're right on that. Certainly our thinking's evolved about technology and where we're going to go, yes, I think there's -- park the Australian business for one minute. In the New Zealand business, yes, I think in number we've been spending \$7 million to \$10 million and I think that's a reasonable top-end number. Yes, I think that's a reasonable top-end number to give a -- yes, this is a bit of a punt admittedly.

Like any -- if there's one thing I took out of the US downturn is don't build too much depreciation in because it gets you in the bottom, so we don't want to overcapitalize the Company and have to live with it on the bottom. It seems like a wee bit away at the moment. So yes, I think if you thought about \$7 million to \$10 million is a top end.

Matt Henry^ Okay. And Australia, after this year what sort of profile are you expecting?

Nigel Rigby^ Good question, Matt. Not one I wanted to answer. We're going to -- we obviously went into Australia and spent a fair bit of money and time thinking about our thesis on Australia. We'd have to see that play out.

We'd have to see that play out for further investment but obviously you can understand our thinking on where we think we can go and what our capabilities would be. We think we can get the AGG business to a position and that will be helped out by a New Zealand double-glazing line going into New South Wales and optimizing the gear they've got, and Tasmania, giving some relief to Melbourne, which will uplift them.

But we will have to look further if we see our growth profile continuing at the rate we've seen it over the last seven months. If you went back in that business for three or so years, their revenue is pretty flat, and now their revenue is going to grow reasonably -- ahead of New Zealand -- reasonably robustly over the next 12 months.

As we see it, the position in the detached housing market, so all this apartment fragility in New South Wales and Victoria we're somewhat immune to. So we're going to have think through but we haven't got any plans on the table today. We've got a lot of concepts and thinking that we'll have to progress. So, yes, we're obviously working on trying to figure out what our capacity build would be in Australia and how manageable that is.

Matt Henry^ Yes, understand. Thank you.

Operator^ Thank you. We will now take our next question from Nick Mar from Macquarie Securities. Please go ahead.

Stephen Hudson^ Hi, guys, it's Steve Hudson here; Nick had to run off. I think we've got three questions. Firstly, just on provisioning, I just wondered if there had been any -- and I know you've had a question on this -- any changes in your provisioning that has affected EBIT for this financial period?

The second question is just around DIFOT. Can you give us a DIFOT number for Highbrook and how that's tracking versus your -- the targets embedded in your STI?

And then thirdly, just on market share and residential DGs, we're getting a little bit of conflicting information around how the small independent guys are tracking. I think Glass Relate are talking of 40% increases in residential DG volumes so presumably taking a little bit of share. I think Viridian have made similar comments.

I just wondered if you could square off those comments versus your own analysis of a flat market share? Thanks.

Nigel Rigby^ Okay, all right. Yes, no provisioning, no extra provisioning at either level. And I'll try and pre-empt what you're asking about. We don't have any -- we signalled a project that we had an issue with.

We don't have any further projects we have issues with, and that's a bit of a one-off. So yes, we don't have concerns about our commercial book or any provisioning required for stock or projects or anything like that. So no, not at the EBIT level.

Second issue, yes, we track share like a dog, so it's something we're fixated and paranoid about. We did hit a share position that was very, very good which was over our target through mid-2016 but if I look on an average basis, we're pretty comfortable that we've held share. Yes, there might be some small players.



I can't see Glass Relate up 40%, that would be a surprise. And I would know if they were, because I've got a reasonable handle on what they might be doing. Yes, I'd be comfortable with that share. Obviously, when you're in our game you've got to be paranoid over your share, you've got to try and use many data points to try and figure out where you sit in the market. It's a pretty valuable number to know. So we'd be pretty comfortable.

Unidentified Company Representative^ Oh, there was a third question about DIFOT.

Nigel Rigby^ Oh okay, DIFOT. Yes, Highbrook DIFOT would be below our expectation. We started the year very well. Highbrook has taken another reasonable chunk of volume. Yes, we'd be very comfortable with the South Island DIFOT and -- but as we take synergies and volume that challenges DIFOT. But we think over the year we've pretty much got our formula now that we like and we're going to be pretty comfortable with Highbrook DIFOT over time. We have some legal measures below that. Having said that though, you've raised a question about STI.

John Fraser-MacKenzie^ We didn't qualify in DIFOT.

Nigel Rigby^ Yes. Management didn't qualify for the DIFOT measure, to answer your question. So on the STI they didn't get paid on DIFOT.

Stephen Hudson^ Can you share what the number was versus target?

Nigel Rigby^ I can share with you we didn't have the [90%] target. It's an all-or-nothing deal. You either have [90%] or you don't. So we didn't and -- yes, and management got dinged.

Stephen Hudson^ Thanks, guys.

Nigel Rigby^ All right. Okay, unfortunately we're out of time. So we can take one further question and then we're done.

Operator^ Perfect. We will now take our final question from David Oxley from Salt Funds Management. Please go ahead.

David Oxley^ Yes. Hi, Nigel. A bit of an anti-climax. Stephen just asked it for me around any issues in the commercial books, so you answered it. Thanks very much.

Nigel Rigby^ All right, yes. No issues, as far as I know. All right, thank you, guys. Appreciate your time. Cheers.

Operator^ Thank you, ladies and gentlemen, that will conclude today's call and you may now all disconnect.