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Metroglass announces its FY20 results

- Metroglass group delivered on its FY20 EBIT[1] guidance and net debt reduction target, despite the closure of NZ operations towards the end of March due to COVID-19
- Strengthened group balance sheet with net debt reduced by $16.5m from strong operating cashflows
- Revenue declined 5% to $254.9m, with reduced exposure to large-scale commercial projects in NZ being partially offset by revenue growth in Australia
- EBIT before significant items[2] of $23.2m, compared to $25.2m in FY19
- Australian Glass Group is on a positive trajectory, with an EBITDA[3] positive result in H2 FY20
- Statutory net profit after tax (NPAT) of $(77.9m) down from $5.0m in FY19; driven by an $86.5m impairment of intangible assets due to the softer outlook for NZ construction

Metro Performance Glass (Metroglass) today reports financial results for the 12 months to 31 March 2020 (FY20) in line with the EBIT[1] guidance and net debt reduction target provided in November 2019.

CEO Simon Mander said: "The group's FY20 results reflect a solid result in challenging market conditions. In New Zealand, we maintained consistent revenue in our key residential segment but had a decline in commercial glazing revenue as we reduced our risk exposure on large scale projects. In Australia, we have begun to make clear progress on our turnaround plan, growing revenues and delivering a positive EBITDA result for the second half."

Group Revenue for the year to 31 March 2020 of $254.9m was 5% below last year, with New Zealand declining 7% and Australia up 3%. EBIT before significant items fell 8% to $23.2m. As a result of an $86.5m impairment charge on New Zealand goodwill, statutory NPAT declined to a $(77.9m) loss, from $5.0m in FY19. NPAT before significant items[4] declined to $10.9m, from $14.2m in FY19.

Net debt was reduced by $16.5m this year to $66.9m at 31 March 2020, through strong cash generation, focussed capital expenditure and further reductions in working capital.

"We operate within a dynamic and competitive environment and our focus remains on providing a differentiated and market leading customer experience. Our latest group-wide customer survey showed increasingly positive feedback on the quality of our people and service, which is a testament to the hard work of our teams this year."

New Zealand

Revenue in New Zealand declined 7% to $203.0m in FY20, which was principally driven by a 24% fall in commercial glazing sales as the business began to focus on small-medium sized projects where the business has a strong track-record and sees future opportunities. NZ EBIT fell 11% to $27.8m (inclusive of a $1.9m IFRS-16 benefit) with lower revenue only partially offset by savings in factory and glazing costs.

The impacts of COVID-19 began to be felt towards the end of March and then had a dramatic effect on New Zealand operations in April and early May. The business was able to continue paying all salaried and wage staff in full throughout the shutdown period, supported by the Government's wage subsidy.

Note: all non-Generally Accepted Accounting Principles (GAAP) financial measures are defined and reconciled to a GAAP measure in the 2020 Annual Report, available here: https://www.metroglass.co.nz/investor-centre/annual-interim-reports/.

[1] *Earnings before interest and tax (EBIT), before significant items. This guidance was provided on a pre IFRS-16 basis.*

[2] *EBIT before significant items, post IFRS-16. FY20 significant items at EBIT: $86.5m impairment of NZ goodwill, $4.6m of NSW restructuring costs. FY19 significant item: $9.6m impairment of Australian intangible assets.*

[3] *Earnings before interest, tax, depreciation and amortisation (EBITDA), before significant items (NSW restructure costs).*

[4] *NPAT before significant items. FY20 significant items at NPAT also include a $0.9m positive tax adjustment relating to prior periods.*

The negative repercussions on the New Zealand economy caused by the COVID-19 pandemic are expected to be significant and result in lower construction activity for the coming 12 - 24 months. The glass processing and installation industry also continues to be very competitive. Due to the current level of uncertainty, management have developed and are planning for a number of potential future scenarios.

As a consequence of the forecasted significantly lower construction activity, and the increased competitive intensity, a review of the carrying values of Metroglass' assets resulted in an $86.5m impairment on New Zealand goodwill, which initially arose from acquisitions completed in 2012 (pre-IPO). This non-cash charge has no impact on the company's bank covenants and is presented as a significant item in the FY20 financial statements.

Australian Glass Group (AGG)

Pleasingly, AGG continued to consistently deliver on its service-led value proposition throughout the year. AGG's revenue increased by 3% to $51.9m in FY20 (or +5% in Australian dollar terms) with further growth in the Tasmanian business offsetting the structural changes made in New South Wales (NSW). This revenue growth was particularly pleasing given the significant deterioration in the wider Australian construction activity.

Revised energy efficiency requirements for new commercial buildings were introduced in 2019 and has contributed to increased demand for double glazing this year. AGG is well positioned to benefit from the anticipated roadmap of future building code changes which will also increase the use of double glazing in residential dwellings.

In November 2019 Metroglass announced that the NSW operations would be reoriented to focus on supplying double-glazed units. Local production of other products was scaled down and operating costs have been materially reduced.

AGG's EBIT loss decreased by $1.2m to $(3.6m) this year. This financial performance remains below an acceptable level and more work is still to be done, however the business is showing steady improvement and is on an encouraging path. For the second half, AGG delivered an EBITDA positive result.

Cashflow and balance sheet

Metroglass further strengthened its financial position this year, reducing net debt by $16.5m to $66.9m. The Company retained borrowing headroom of more than $50m at 31 March 2020.

As part of the company's response to the COVID-19 environment, the company took the prudent step of agreeing with its banks a relaxation of the key financial covenant, net debt to EBITDA, from 3.0x to 4.0x for all tests up to and including 31 March 2021. As part of this relief the Group agreed to provide regular updates to its banking partners and to limit growth capital expenditure and pay no dividends in FY21. Constructive discussions are ongoing with regard to providing for future requirements as the economic conditions in both New Zealand and Australia become clearer.

Market conditions and outlook

While the implications of the COVID-19 pandemic on construction activity in New Zealand and Australia are uncertain, Metroglass expects a significant decline in economic activity for at least the next 12 to 24 months. The base case estimate for 9 month lagged NZ residential consents is for a marginal fall in FY21 and a c. 20% decline in FY22, before a c. 5% recovery in FY23. A 20% decline in detached residential housing starts in our key Australian markets in FY21 (non-lagged) is also expected, followed by a 9% recovery in FY22.

Building activity in NZ essentially ceased during the COVID-19 shutdown period and productivity was also impacted under Alert Levels 3 and 2. This will impact on the traditional lag between residential housing consents and glass demand, but this lag will provide Metroglass some opportunity to observe market conditions in the coming months and refine its plans accordingly.

Mr Mander said: "We remain confident in our strategy and ability to respond to the changing conditions. Metroglass will work hard to support our customers with excellent service and maintain our market-leading position in New Zealand and growing position in Australia. We will continue to preserve cash, with a focus on critical capital expenditure and effective and proactive management of costs. We have already made some progress on our operating and overhead cost base in FY20 and have carried this focus into FY21 to ensure that the group is best positioned to emerge from the effects of the pandemic successfully."

The company will provide shareholders with an update on trading performance and current conditions at its Annual Shareholders' meeting on 21 August 2020.

/Ends

Full year results webcast and conference call details

Metro Performance Glass Limited will host a conference call today to review its FY20 results. The briefing is scheduled to begin at 10am NZDT and can be joined by webcast or conference call.

You can listen to the webcast via the company's website: http://www.metroglass.co.nz/investor-centre or directly: https://globalmeet.webcasts.com/starthere.jsp?ei=1326394&tp_key=24ef8595fa. Please allow extra time prior to the webcast to visit the site and download streaming media software if required. An online archive of the event will be available after 2pm on the day.

To join the conference call, participants will need to dial in to one of the numbers below at least 5 minutes prior to the scheduled call time and when prompted, please quote the conference code: **462705**.

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Authorised by the Metroglass Board.