

# THE CONNECTOR

NEWS 'N VIEWS FROM THE GROUP | NOVEMBER 2018

## CHAIRMAN'S UPDATE

The current financial year has started in a very positive manner for the NZPM Group co-operative. Our strategy of improving and expanding our core business continues, and we still see significant scope to further improve our position for the benefit of our members.

Our earnings before net financing costs, dividends, rebate dividends and taxation for the six months to September 2018 were \$5.5 million, a 27% increase from the prior comparative period of \$4.3 million, and this represents the highest interim profit from our plumbing business in the history of the company.

In summary, the key financial indicators for the half-year were:

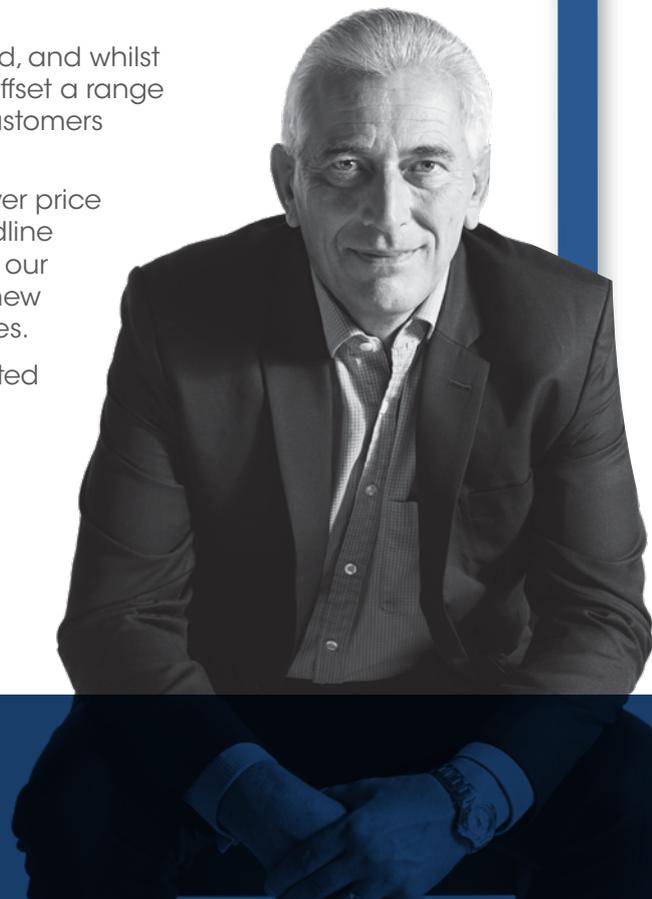
- Consolidated revenue grew 10% from the comparative period last year to \$120.0 million;
- The net loss after taxation of \$0.7 million was after paying the annual rebate dividend of \$4.0 million; and
- Operating cash inflow of \$2.9 million increased by \$1.6 million over the prior comparative period.

NZPM has been able to maintain the sales momentum achieved in the second half of the prior financial year with sales in most regions achieving robust growth. As always, a range of factors contributed to the increase in sales including strong demand from the wider construction sector, the strong support from our customer base, and our sales and operational staff continuing to build a compelling service-offering. On a regional basis, growth was flat in the Auckland market due to strong competition and difficulties in attracting and retaining key staff, while post-earthquake demand in the Canterbury region has clearly stabilised.

Our operating margins were similar to the prior comparative period, and whilst the growth of Plumbing World's own brand and exclusive ranges offset a range of downward margin pressures, the relative growth of our larger customers continued to average down our overall operating margins.

The cost base of the Group continues to be well controlled, however price inflation for both fuel and employee costs is greater than the headline inflation rate. We also continue to expand our workforce to service our growing customer base, and we are investing in a wide range of new business processes, including a number of new digital technologies.

Undoubtedly our reinvestment in the network footprint has supported our sales growth, and our new branches in Hornby, Te Rapa and Richmond are all performing at or above our expectation. Equally, our investment in relocating or upgrading existing premises demonstrates our commitment to the local communities in which we operate, and provides both our customers and our staff with a more efficient and pleasant operating environment.



*Chairman's Update Continued...*

Our strategy of growing the business through a mixture of both bricks and mortar and technology investment will also see Plumbing World open new branches in Papamoa (Bay of Plenty) and Cromwell (Central Otago) in the coming months. Construction has recently started on a new leased premise for Plumbing World in Kumeu (West Auckland), and work on our new combined Plumbing World/Metrix distribution centre in Wiri (South Auckland) is progressing well.

Following the purchase of our Papanui (Christchurch) site in July, NZPM has since entered into an unconditional agreement to purchase a second strategically critical site in Kingsland (Auckland). Located on New North Road, this premise will replace our existing Grey Lynn branch when that lease expires early in 2020, and this branch will form an important part of our growth and development strategy for the wider Auckland market.

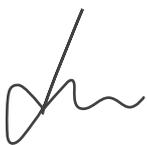
The co-operative continues to work with staff and customers to make health and safety a part of our everyday culture, and we have recently implemented standardised risk and hazard registers across the network to simplify our processes and reporting. With the support of our staff we also continue to move our focus toward lead indicator reporting through our safety observations and near miss reporting.

Our second annual Plumbing World Young Plumber of the Year competition took place in October, and once again received wide praise from across the industry and great media coverage. The elevated standard of this year's competition was complemented with a formal awards night function that was well attended by finalists, their employers, judges and sponsors. This initiative reflects our desire to encourage youth and skills development, to celebrate excellence, and to create a sustainable platform for our industry.

On a co-operative front, NZPM continues to enjoy a steady level of applications for new shareholder membership, and during the period we welcomed 37 new members to lift our total membership to 858 ordinary shareholders. We have also strengthened our engagement with the core co-operative principle of Concern for the Community by supporting three cancer charities that have a strong age demographic relationship to our members.

Looking forward, we expect to see lower growth in the second half of the financial year due to a range of wider market constraints. Likewise, our significant commitment to investing in the development and implementation of new digital technologies will have an impact on earnings for the foreseeable future, however, we strongly believe that this investment will be essential for the future growth and success of the co-operative.

The board and management thank all of our staff and shareholders for your continued support of the NZPM co-operative.



John DeBernardo  
*Chairman and on behalf of the board and executive team*

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## **INTERIM FINANCIAL STATEMENTS**

The complete interim financial statements can be found within the Investor Centre section of the NZPM website ([www.nzpm.co.nz/investor-centre](http://www.nzpm.co.nz/investor-centre)).

**Condensed consolidated interim statement of profit or loss and other comprehensive income**

For the six months ended 30 September 2018

	Six months ended		Year ended
	Unaudited		Audited
	30/09/18	30/09/17	31/03/18
	\$'000	\$'000	\$'000
Revenue	120,040	109,234	212,766
Cost of goods sold	(85,304)	(77,466)	(148,789)
<b>Gross profit</b>	<b>34,736</b>	<b>31,768</b>	<b>63,977</b>
Other income	48	2	0
Other gains/(losses)	90	(13)	(56)
Share of net profit of associates	138	21	100
Loss recognised on sale of interest in former associate	0	0	(905)
Other operating expenses	(29,478)	(27,434)	(54,282)
<b>Profit before net financing costs, rebate dividends and dividends paid, and taxation</b>	<b>5,534</b>	<b>4,344</b>	<b>8,834</b>
Finance income	21	21	35
Finance costs	(192)	(267)	(485)
Finance costs - net	(171)	(246)	(450)
Rebate dividends and dividends paid	(4,390)	(3,344)	(3,776)
<b>Profit before income tax</b>	<b>973</b>	<b>754</b>	<b>4,608</b>
Income tax expense	(1,638)	(1,088)	(2,562)
<b>(Loss)/profit for the period</b>	<b>(665)</b>	<b>(334)</b>	<b>2,046</b>
<b>Total comprehensive (loss)/income for the period, net of tax</b>	<b>(665)</b>	<b>(334)</b>	<b>2,046</b>

\* Extract - this statement has been extracted from the NZPM Group Limited Consolidated Interim Financial Statements for the six months ended 30 September 2018. The full report is available at [www.nzpm.co.nz/investor-centre](http://www.nzpm.co.nz/investor-centre).

**Condensed consolidated interim statement of financial position**

As at 30 September 2018

	Unaudited		Audited
	30/09/18	30/09/17	31/03/18
	\$'000	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (excluding bank overdrafts)	1,918	357	0
Trade and other receivables	26,515	24,548	28,668
Right to returned goods asset	1,171	0	0
Derivative financial instruments	28	46	0
Inventories	33,181	31,186	32,237
<b>Total current assets</b>	<b>62,813</b>	<b>56,137</b>	<b>60,905</b>
<b>Non-current assets:</b>			
Trade and other receivables	100	0	100
Property, plant and equipment	9,167	4,826	6,424
Intangible assets	8,510	8,622	8,536
Investments in associates	1,222	2,610	1,222
Deferred tax assets	1,752	1,746	1,669
<b>Total non-current assets:</b>	<b>20,751</b>	<b>17,804</b>	<b>17,951</b>
<b>Total assets</b>	<b>83,564</b>	<b>73,941</b>	<b>78,856</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Trade and other payables	23,225	21,544	22,714
Refund liability	1,497	0	0
Borrowings	0	601	389
Derivative financial instruments	0	0	41
Provisions	2,653	2,474	2,764
Current tax liabilities	1,501	466	1,570
<b>Total current liabilities</b>	<b>28,876</b>	<b>25,085</b>	<b>27,478</b>
<b>Non-current liabilities:</b>			
Borrowings	8,900	5,658	5,500
Derivative financial instruments	483	710	627
Provisions	813	617	643
Co-operative share capital	27,468	26,562	26,919
<b>Total non-current liabilities</b>	<b>37,664</b>	<b>33,547</b>	<b>33,689</b>
<b>Total liabilities</b>	<b>66,540</b>	<b>58,632</b>	<b>61,167</b>
<b>Net assets</b>	<b>17,024</b>	<b>15,309</b>	<b>17,689</b>
<b>EQUITY</b>			
Retained earnings	17,024	15,309	17,689
<b>Total equity</b>	<b>17,024</b>	<b>15,309</b>	<b>17,689</b>

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**Condensed consolidated interim statement of cash flows**

For the six months ended 30 September 2018

	Six months ended		Year ended
	Unaudited		Audited
	30/09/18	30/09/17	31/03/18
	\$'000	\$'000	\$'000
<b>Cash flows from operating activities:</b>			
Receipts from customers	118,294	113,039	212,551
Interest received	21	21	35
Dividends received from associates	138	38	100
Other dividends received	3	3	3
Payments to suppliers and employees	(109,701)	(107,293)	(203,954)
Income taxes paid	(1,790)	(1,365)	(1,663)
Interest paid	(250)	(293)	(594)
Rebate dividends and dividends paid	(3,822)	(2,823)	(2,991)
<b>Net cash inflow from operating activities</b>	<b>2,893</b>	<b>1,327</b>	<b>3,487</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of property, plant and equipment	1	23	53
Proceeds for fit-out	0	0	75
Payments for intangibles	(256)	(20)	(192)
Payments for property, plant and equipment	(3,626)	(1,400)	(3,873)
Proceeds from sale of associates	0	0	300
<b>Net cash (outflow) from investing activities</b>	<b>(3,881)</b>	<b>(1,397)</b>	<b>(3,637)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issue of shares	843	1,469	2,365
Proceeds from borrowings	3,400	0	0
Payments for shares bought back	(862)	(1,084)	(1,887)
Repayment of finance lease	(281)	(544)	(922)
Repayment of borrowings	0	(900)	(1,000)
Repayment of interest rate swap	(86)	0	0
<b>Net cash inflow/(outflow) from financing activities</b>	<b>3,014</b>	<b>(1,059)</b>	<b>(1,444)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,026</b>	<b>(1,129)</b>	<b>(1,594)</b>
Cash and cash equivalents at the beginning of the year	(108)	1,486	1,486
Cash and cash equivalents at end of the period	1,918	357	(108)

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