

# Connector

News and views from the Group.

## **Chair's report.**

The NZPM co-operative has continued its success in the new financial year. We have grown our revenue base, expanded our branch network footprint, launched a new customer focused technology solution, completed the relocation into new premises in Queenstown, and consolidated our two Auckland warehouses into a single new distribution centre.

Sales for the six month period to 30 September 2019 were \$128.1 million, an increase of 6.7% over the prior year comparative period. Our profit before net financing costs, dividends, rebate dividends and taxation (operating earnings) for the six months to September 2019 was \$5.8 million, however direct comparison to the prior comparative period is less straight forward due to the adoption of the new lease accounting standard which has had a significant impact on our financial statements. The detailed information relating to the new accounting standard is included in our interim report at [www.nzpm.co.nz](http://www.nzpm.co.nz).

Excluding the impact of the new lease accounting standard, operating earnings reduced by

\$0.3 million from the prior year comparative period due to the significant level of investment we have been making in technology, the increase in our cost base to support our exclusive and own brand products programme and the initial costs we have incurred in opening three new branches.

NZPM continues to maintain a healthy level of sales growth. The foundations of our success continue to be our service model, the loyalty of our co-operative customers, and the commitment from our staff; and these elements will increasingly be linked to new technologies. We are observing a range of demand factors across regional markets with strength in Auckland, Waikato and the lower North Island, weaker demand in Canterbury and static demand across the rest of New Zealand.

Our operating margins were similar to the prior comparative period. The growth of Plumbing World's own brand and exclusive ranges continues to offset a range of downward margin pressures from the relative growth of our larger customers and general market competitiveness.

With the improvements in our warehousing functions we are now implementing the planned expansion of our own brand and exclusive ranges into both new categories and new product ranges. This programme will complement the other work that we are doing with our partner suppliers to provide compelling product offerings at price points that are advantageous to our customers.



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## Chair's report cont.

The cost base of the co-operative continues to be well controlled, however costs increased at a greater rate than revenue as we continue to reinvest to support our future. During the period, we opened three new branches in Kumeu (West Auckland), Onehunga (Auckland) and Bream Bay (Northland), and we expect to open two further new branches in the next six months. These new branches are all in locations that were underserved by Plumbing World and will contribute to our future success.

Our Digital and Technology team recently launched new customer-facing technology with the release of pwGO, the Plumbing World trade purchasing app. This user friendly technology allows customers to directly order products from us in a simple manner and is the first in a number of projects that will support our interactions with our customers. The team also progressed a number of projects that are aimed at simplifying our business and reducing costs to the whole supply chain.

Our Health and Safety team continued to work through all our property portfolio to identify any presence of asbestos. We have worked with several landlords to remove any asbestos building materials or, where the future risk is low, we have developed individual site management plans. We are now working through a similar exercise to understand the seismic assessment of each building that we occupy with the expectation that buildings with low seismic ratings will be upgraded.

The third annual Plumbing World 'Young Plumber of the Year' competition took place in October, and was again a huge success thanks to the enthusiasm of all the participants and the support from the plumbing industry, our customers and suppliers. Our support of the wider 'Young Plumbers Club' and the annual competition is an important pillar in our co-operative ethos and our wider support of the plumbing community, through the encouragement of skills development, engagement and the celebration of excellence in the next generation of our industry.

NZPM continues to enjoy a steady level of applications for new shareholder membership, and during the period we welcomed 31 new members to lift our total membership to 884 ordinary shareholders. This year-on-year growth is testament to the value and benefits of co-operative membership, and will continue to provide longevity as our baby boomer generation members retire.

Following our AGM in August, we welcomed John Leen from Wellington and Peter Faul from Queenstown as two new elected directors to the NZPM Board. August also saw our 2019 Future Governance Programme appointees Dave Morgan and Sam Tyson join our board meetings until May next year.

Looking forward, we expect market demand to plateau. We are planning for a period of consolidation to allow NZPM to secure the full benefits from the expansion to our footprint over the last two years and to

support our digital technologies to deliver on the customer and efficiency benefits that we know will be an increasingly important part of our collective futures. As previously indicated, the development and implementation of these new technologies will have an impact on our 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.

Kind Regards,



John DeBernardo  
NZPM Chair

|   | Six months ended<br>Unaudited |                      | Year Ended<br>Audited |
|---|-------------------------------|----------------------|-----------------------|
|   | 30/09/2019<br>\$'000          | 30/09/2018<br>\$'000 | 31/03/2019<br>\$'000  |
| Revenue   | 128,110                       | 120,040              | 232,281               |
| Cost of goods sold  | (90,760)                      | (85,304)             | (163,122)             |
| <b>Gross profit</b>   | <b>37,350</b>                 | <b>34,736</b>        | <b>69,159</b>         |
| Other income  | 49                            | 48                   | 93                    |
| Share of net profit of associates   | 0                             | 138                  | 141                   |
| Administration expenses   | (6,196)                       | (5,780)              | (11,498)              |
| Gain on sale of investment in associate   | 0                             | 0                    | 475                   |
| Lease expense   | 0                             | (4,335)              | (8,488)               |
| Depreciation and amortisation expense   | (5,190)                       | (1,212)              | (2,492)               |
| Other operating expenses  | (20,258)                      | (18,061)             | (36,320)              |
| <b>Profit before net financing costs, rebate dividends and dividends paid,<br/>and income tax</b> | <b>5,755</b>                  | <b>5,534</b>         | <b>11,070</b>         |
| Finance income  | 15                            | 21                   | 43                    |
| Finance costs   | (1,716)                       | (192)                | (513)                 |
| Finance costs - net   | (1,701)                       | (171)                | (470)                 |
| Rebate dividends and dividends paid   | (5,183)                       | (4,390)              | (4,826)               |
| <b>(Loss)/profit before income tax</b>  | <b>(1,129)</b>                | <b>973</b>           | <b>5,774</b>          |
| Income tax  | (1,312)                       | (1,638)              | (2,969)               |
| <b>(Loss)/profit for the period</b>   | <b>(2,441)</b>                | <b>(665)</b>         | <b>2,805</b>          |
| <b>Total comprehensive (loss)/income for the year, net of tax</b>                                 | <b>(2,441)</b>                | <b>(665)</b>         | <b>2,805</b>          |

\*Extract - this statement has been extracted from the NZPM Group Limited Consolidated Interim Financial Statements for the six months ended 30 September 2019. The full report is available at [www.nzpm.co.nz/investor-centre](http://www.nzpm.co.nz/investor-centre).

| As at   | Unaudited      |               | Audited       |
|---|----------------|---------------|---------------|
|   | 30/09/2019     | 30/09/2018    | 31/03/2019    |
|   | \$'000         | \$'000        | \$'000        |
| <b>ASSETS</b>   |                |               |               |
| <b>Current assets:</b>                                |                |               |               |
| Cash and cash equivalents (excluding bank overdrafts) | 0              | 1,918         | 29            |
| Trade and other receivables                           | 28,145         | 26,515        | 30,862        |
| Right to returned goods asset                         | 1,351          | 1,171         | 1,351         |
| Derivative financial instruments                      | 64             | 28            | 0             |
| Inventories   | 35,177         | 33,181        | 34,344        |
| <b>Total current assets</b>                           | <b>64,737</b>  | <b>62,813</b> | <b>66,586</b> |
| <b>Non-current assets:</b>                            |                |               |               |
| Trade and other receivables                           | 0              | 100           | 0             |
| Property, plant and equipment                         | 14,233         | 9,167         | 13,323        |
| Other intangible assets                               | 1,176          | 1,620         | 1,427         |
| Goodwill  | 6,890          | 6,890         | 6,890         |
| Right-of-use assets                                   | 51,928         | 0             | 0             |
| Investments in associates                             | 0              | 1,222         | 0             |
| Deferred tax assets                                   | 1,908          | 1,752         | 1,706         |
| <b>Total non-current assets:</b>                      | <b>76,135</b>  | <b>20,751</b> | <b>23,346</b> |
| <b>Total assets</b>                                   | <b>140,872</b> | <b>83,564</b> | <b>89,932</b> |
| <b>LIABILITIES</b>                                    |                |               |               |
| <b>Current liabilities:</b>                           |                |               |               |
| Bank overdraft  | 4              | 0             | 0             |
| Trade and other payables                              | 25,498         | 21,985        | 24,235        |
| Refund liability                                      | 1,909          | 1,497         | 1,909         |
| Contract liabilities                                  | 1,342          | 1,240         | 1,135         |
| Derivative financial instruments                      | 0              | 0             | 23            |
| Provisions  | 2,970          | 2,653         | 2,821         |
| Lease liabilities                                     | 5,972          | 0             | 0             |
| Current tax liabilities                               | 442            | 1,501         | 2,182         |
| <b>Total current liabilities</b>                      | <b>38,137</b>  | <b>28,876</b> | <b>32,305</b> |
| <b>Non-current liabilities:</b>                       |                |               |               |
| Lease incentives                                      | 0              | 153           | 259           |
| Borrowings  | 7,025          | 8,900         | 7,855         |
| Derivative financial instruments                      | 542            | 483           | 504           |
| Long-term provisions                                  | 593            | 660           | 616           |
| Lease liabilities                                     | 47,131         | 0             | 0             |
| Co-operative share capital                            | 29,391         | 27,468        | 27,899        |
| <b>Total non-current liabilities</b>                  | <b>84,682</b>  | <b>37,664</b> | <b>37,133</b> |
| <b>Total liabilities</b>                              | <b>122,819</b> | <b>66,540</b> | <b>69,438</b> |
| <b>Net assets</b>                                     | <b>18,053</b>  | <b>17,024</b> | <b>20,494</b> |
| <b>EQUITY</b>   |                |               |               |
| Retained earnings                                     | 18,053         | 17,024        | 20,494        |
| <b>Total equity</b>                                   | <b>18,053</b>  | <b>17,024</b> | <b>20,494</b> |

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|   | Six months ended<br>Unaudited |                | Year Ended<br>Audited |
|---|-------------------------------|----------------|-----------------------|
|   | 30/09/2019                    | 30/09/2018     | 31/03/2019            |
|   | \$'000                        | \$'000         | \$'000                |
| <b>Cash from operating activities:</b>                      |                               |                |                       |
| Receipts from customers                                     | 130,875                       | 118,294        | 233,499               |
| Interest received   | 15                            | 21             | 43                    |
| Dividends received from associates                          | 0                             | 138            | 238                   |
| Other dividends received                                    | 1                             | 3              | 3                     |
| Payments to suppliers and employees                         | (116,554)                     | (109,701)      | (221,368)             |
| Income taxes paid   | (3,254)                       | (1,790)        | (2,394)               |
| Interest paid on bank facilities                            | (269)                         | (250)          | (550)                 |
| Interest paid on leases                                     | (1,409)                       | 0              | 0                     |
| Rebate dividends and dividends paid                         | (4,486)                       | (3,822)        | (3,936)               |
| <b>Net cash from operating activities</b>                   | <b>4,919</b>                  | <b>2,893</b>   | <b>5,535</b>          |
| <b>Investing activities:</b>                                |                               |                |                       |
| Proceeds from sale of property, plant and equipment         | 0                             | 1              | 151                   |
| Purchases of intangibles                                    | (54)                          | (256)          | (358)                 |
| Purchases of property, plant and equipment                  | (1,876)                       | (3,626)        | (8,969)               |
| Proceeds on disposal of associate(s)                        | 0                             | 0              | 1,700                 |
| <b>Net cash used in investing activities</b>                | <b>(1,930)</b>                | <b>(3,881)</b> | <b>(7,476)</b>        |
| <b>Financing activities:</b>                                |                               |                |                       |
| Proceeds on issue of shares                                 | 1,584                         | 843            | 1,976                 |
| Proceeds from borrowings                                    | 0                             | 3,400          | 3,055                 |
| Repurchase of shares  | (789)                         | (862)          | (1,886)               |
| Repayments of obligations under finance leases              | 0                             | (281)          | (281)                 |
| Repayments of borrowings                                    | (830)                         | 0              | (700)                 |
| Payments for lease liability principal                      | (2,987)                       | 0              | 0                     |
| Repayment of interest rate swap                             | 0                             | (86)           | (86)                  |
| <b>Net cash (used in)/from financing activities</b>         | <b>(3,022)</b>                | <b>3,014</b>   | <b>2,078</b>          |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(33)</b>                   | <b>2,026</b>   | <b>137</b>            |
| Cash and cash equivalents at beginning of year              | 29                            | (108)          | (108)                 |
| <b>Cash and cash equivalents at end of period</b>           | <b>(4)</b>                    | <b>1,918</b>   | <b>29</b>             |

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## Change to accounting policy

### Application of new and reviewed International Financial Reporting Standards

The Group has adopted NZ IFRS 16 Leases (NZ IFRS 16) from 1 April 2019. This is the first set of the Group's financial statements where NZ IFRS 16 Leases has been applied.

The standard deals with the recognition, measurement, presentation and disclosure of leases and replaces the current guidance in NZ IAS 17 Leases (NZ IAS 17). The new standard introduces a single model for lessees which recognises all leases on the balance sheet through an asset representing the rights to use the leased item during the lease term and a liability for the obligation to make lease payments. This removes the distinction between operating and finance leases and aims to provide users of the financial statements relevant information to assess the effect that leases have on the financial statements of the reporting entity.

In applying the new standard, there has been no adjustment to opening retained earnings as there has been no impact on prior periods. The details of the significant changes and quantitative impact of the changes are set out on the following page.

Impact of the adoption of NZ IFRS 16 on the consolidated interim financial statements

The following table shows the adjustments to the consolidated interim statement of profit or loss and other comprehensive income.

| For the six months ended 30 September 2019  | Pre NZ<br>IFRS 16<br>\$'000 | NZ IFRS 16<br>Adjustments<br>\$'000 | As reported<br>\$'000 |
|---|-----------------------------|-------------------------------------|-----------------------|
| <b>Gross Profit</b>   | <b>37,350</b>               | <b>0</b>                            | <b>37,350</b>         |
| Lease expense   | (4,377)                     | 4,377                               | 0                     |
| Depreciation and amortisation expenses  | (1,288)                     | (3,902)                             | (5,190)               |
| Other income and expenses   | (26,405)                    | 0                                   | (26,405)              |
| <b>Profit before net financing costs, rebate dividends and dividends paid, and income tax</b> | <b>5,280</b>                | <b>475</b>                          | <b>5,755</b>          |
| Finance costs - net   | (292)                       | (1,409)                             | (1,701)               |
| Rebate dividends and dividends paid   | (5,183)                     | 0                                   | (5,183)               |
| Income tax  | (1,574)                     | 262                                 | (1,312)               |
| <b>Loss for the period, net of tax</b>  | <b>(1,769)</b>              | <b>(672)</b>                        | <b>(2,441)</b>        |

The following table shows the adjustments to the consolidated interim statement of financial position.

| As at 30 September 2019             | Pre NZ<br>IFRS 16<br>\$'000 | NZ IFRS 16<br>Adjustments<br>\$'000 | As reported<br>\$'000 |
|-------------------------------------|-----------------------------|-------------------------------------|-----------------------|
| <i>Assets:</i>                      |                             |                                     |                       |
| Right-of-use assets                 | 0                           | 51,928                              | 51,928                |
| Deferred tax assets                 | 1,646                       | 262                                 | 1,908                 |
|                                     | 1,646                       | 52,190                              | 53,836                |
| <i>Liabilities:</i>                 |                             |                                     |                       |
| Lease liabilities - current portion | 0                           | 5,972                               | 5,972                 |
| Lease liabilities - term portion    | 0                           | 47,131                              | 47,131                |
| Lease incentive                     | 241                         | (241)                               | 0                     |
|                                     | 241                         | 52,862                              | 53,103                |
| <i>Equity:</i>                      |                             |                                     |                       |
| Retained earnings                   | 18,725                      | (672)                               | 18,053                |

The following table shows the adjustments to the consolidated interim statement of cash flows.

| For the six months ended 30 September 2019                    | Pre NZ<br>IFRS 16<br>\$'000 | NZ IFRS 16<br>Adjustments<br>\$'000 | As reported<br>\$'000 |
|---|-----------------------------|-------------------------------------|-----------------------|
| Payments to suppliers and employees (operating activities)    | 4,396                       | (4,396)                             | 0                     |
| Interest paid on leases (operating activities)                | 0                           | 1,409                               | 1,409                 |
| Payments for lease liability principal (financing activities) | 0                           | 2,987                               | 2,987                 |

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