

Connector

News and views from the Group.

Chair's Interim Report.

Like the rest of New Zealand, the NZPM co-operative started the new financial year in Alert Level 4 lockdown with supply only to essential services. After an initial period of caution, the wider industry and your co-operative rebounded above our expectations such that second quarter revenue was 11% above the prior year comparative quarter.

In a busy and unconventional six months with many highlights, it was again our people who set the business apart from others. During the lockdown, we worked together to support each other, our customers and our members. When operations restarted, our team showed all the dedication that we sometimes take for granted, to get us back into the market and to ensure that NZPM continued to be successful.

This effort translated into some great financial results:

- Consolidated revenue for the six months to 20 September 2020 was \$124.0 million which was a decrease of 3% from the same period last year. The shutdown reduced revenue in the month of April by \$15.4 million compared to April 2019, however, after an initial steady operating period, demand sharply increased to reduce the overall revenue shortfall on

the prior comparative period to September 2020 to \$4.1 million;

- Our profit before net financing costs, dividends, rebate dividends and taxation (operating earnings) for the six months to September 2020 increased 47% to \$8.5 million when compared to the same six month period last year.
- Operating cash inflow of \$11.5 million increased by \$6.6 million over the prior comparative period. These strong cash flows allowed NZPM to reduce net debt from \$9.2 million (31 March 2020) to \$3.7 million (30 September 2020).

Service means many things to many customers. Plumbing World used its ever improving reputation to expand our customer base in existing and adjacent customer segments. We also made a positive decision to increase the level of stock across the network to overcome supply chain uncertainties and we encouraged customers to use our new technologies to help the efficiency of their businesses.

Our operating margins were similar to the prior comparative period and we continue to face strong market competition with some participants competing hard on price, while supplier price increases in some categories are not

always able to be fully passed on. The continued growth of NZPM's own brand and exclusive ranges continues to offset these downward margin pressures. While international travel restrictions have negatively impacted our program to expand our own brand and exclusive ranges, we have been able to leverage off our partnership with Aquasource by working remotely to expand our product range. ►



Chair's Interim Report continued.

The company was eligible for the government wage subsidy which allowed us to pay all our staff fully during the first part of the year as well as make the commitment to retain all of our people. The lockdown and subsequent economic uncertainty caused us to aggressively manage down discretionary costs so that we retained a strong level of financial flexibility, however with the normalisation of operations, we have now reverted to our planned level of investment to support the wider business in the long-term. During the lockdown periods we also negotiated short-term rent reductions with our landlords and extended our bank facilities.

Our Digital and Technology team continued to drive technology change across NZPM with the launch of pwGO.co.nz in April, and implementation of Frameworks into the branch network in July and August. This program of improvement is aimed at reducing risk, providing new services to customers, simplifying our business and reducing costs to the whole supply chain, and increasingly we see digital technologies as an important area of future investment.

While we did not expand our branch network in the period, we did complete and open our new branch in Kingsland, and have since contracted to purchase land in Drury, on the southern fringe of Auckland, for the development of a new Plumbing World branch planned for 2022. This strategically important location meets our criteria of expanding into high growth zones to service our customers.

Our recently announced restructure to merge a number of internal functions of Plumbing World and Metrix are well underway, and these changes are planned to improve synergies across the co-operative, reduce costs and support future sales growth. The restructure resulted in a number of changes across the business with Rob Kidd appointed to the newly created role of NZPM Chief Executive Officer, and Karin Cunningham taking on the dual role of Plumbing World Commercial Manager and Metrix General Manager.

The directors have declared a final rebate dividend of 1% for the year ended 31 March 2020.

Garry Ivill will leave the business at the end of November and we thank Garry for his twelve years of service to the co-operative and wish him all the best for the future.

Unfortunately, two of our anchor shareholder value propositions, the Young Plumber of the Year competition and our biennial shareholder convention to Beijing, were cancelled due to COVID-19 travel restrictions. We also changed our annual shareholder meeting into two

local gatherings and an audio-visual broadcast.

Importantly, the wider value of co-operative membership continues to be appreciated with 56 new members joining in the six months to September, and this continues our trend of steady year-on-year membership growth.

With the reduction in operating uncertainty, the directors have declared a final rebate dividend of 1% for the year ended 31 March 2020. This takes the full rebate dividend payment for that year to 5% which represents a payment just above the mid-point of the range outlined in our dividend policy. The payment will be made all in cash in late January 2021.

Looking forward, we are cautiously optimistic that the New Zealand construction industry and wider economy will perform well in the medium term. Obviously, there are a range of elevated risks that are likely to continue for the foreseeable future which we will continue to monitor and react to, however we believe that it is also important to continue to reinvest in the business to create future growth and remain competitive.

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

NZPM GROUP LIMITED

*Extract

Consolidated interim statement of profit or loss and other comprehensive income
For the six months ended 30 September 2020

	Note	Unaudited 6 months to 30 Sept 2020 \$'000	Unaudited 6 months to 30 Sept 2019 \$'000	Audited 12 months to 30 Mar 2020 \$'000
Revenue		124,021	128,110	246,229
Cost of sales		(89,043)	(91,592)	(174,632)
Gross profit		34,978	36,518	71,597
Other income	3	3,437	100	410
Share of results of joint venture		39	0	0
Administration expenses		(4,378)	(5,364)	(9,859)
Other operating expenses	4	(25,552)	(25,499)	(50,484)
Operating profit		8,524	5,755	11,664
Finance income		5	15	17
Finance costs		(1,612)	(1,716)	(3,419)
Finance costs - net		(1,607)	(1,701)	(3,402)
Rebate dividends and dividends		(4,589)	(5,183)	(5,622)
Profit/(loss) before income tax		2,328	(1,129)	2,640
Income tax expense		(1,968)	(1,312)	(2,370)
Profit/(loss) for the period		360	(2,441)	270
Total comprehensive income/(loss) for the period, net of tax		360	(2,441)	270

*Extract - this statement has been extracted from the NZPM Group Limited Consolidated Interim Financial Statements for the 6 months ended 30 September 2020. The full report is available at www.nzpm.co.nz/investor-centre.

NZPM GROUP LIMITED

 Consolidated interim statement of financial position
 As at 30 September 2020

*Extract

	Unaudited 30 Sept 2020 \$'000	Unaudited 30 Sept 2019 \$'000	Audited 30 Mar 2020 \$'000
Current assets			
Cash and cash equivalents (excluding bank overdraft)	744	0	697
Trade and other receivables	30,149	28,145	34,604
Right to returned goods asset	1,219	1,351	1,046
Derivative financial instruments	10	64	75
Inventories	39,164	35,177	36,057
Total current assets	71,286	64,737	72,479
Non-current assets			
Property, plant and equipment	14,941	14,233	14,602
Intangible assets	7,897	8,066	8,040
Interest in joint venture	817	0	0
Right-of-use assets	47,155	51,928	49,218
Deferred tax assets	2,428	1,908	2,100
Total non-current assets:	73,238	76,135	73,960
Total assets	144,524	140,872	146,439
Current liabilities			
Bank overdraft	0	4	0
Trade and other payables	30,990	25,498	27,142
Refund liability	1,753	1,909	1,520
Contract liabilities	1,545	1,342	1,100
Derivative financial instruments	170	0	288
Provisions	2,883	2,970	3,106
Lease liabilities	5,999	5,972	6,077
Current tax liabilities	1,164	442	788
Total current liabilities	44,504	38,137	40,021
Non-current liabilities			
Trade and other payables	182	0	0
Loans and borrowings	4,465	7,025	9,895
Derivative financial instruments	194	542	164
Long-term provisions	680	593	608
Lease liabilities	43,675	47,131	45,055
Co-operative share capital	29,700	29,391	29,932
Total non-current liabilities	78,896	84,682	85,654
Total liabilities	123,400	122,819	125,675
Net assets	21,124	18,053	20,764
Equity			
Retained earnings	21,124	18,053	20,764
Total equity	21,124	18,053	20,764

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NZPM GROUP LIMITED

Consolidated interim statement of cash flows
For the six months ended 30 September 2020

***Extract**

	Unaudited 6 months to 30 Sept 2020 \$'000	Unaudited 6 months to 30 Sept 2019 \$'000	Audited 12 months to 30 Mar 2020 \$'000
Cash flows from operating activities:			
Receipts from customers	122,741	130,827	248,513
Government COVID-19 wage subsidy scheme	3,359	0	0
Income tax received	332	0	0
Interest received	5	15	17
Other income	78	100	170
Payments to suppliers and employees	(107,028)	(116,605)	(229,094)
Income taxes paid	(2,252)	(3,254)	(4,158)
Interest paid on borrowings	(271)	(269)	(340)
Interest paid on lease liabilities	(1,429)	(1,409)	(2,906)
Dividends paid to shareholders	(3,988)	(4,486)	(4,597)
Net cash generated by operating activities	11,547	4,919	7,605
Cash flows from investing activities:			
Acquisition of investment in joint venture	(375)	0	0
Proceeds on disposal of property, plant and equipment	0	0	104
Purchases of computer software	(170)	(54)	(328)
Purchases of property, plant and equipment	(1,528)	(1,876)	(3,406)
Net cash used in investing activities	(2,073)	(1,930)	(3,630)
Cash flows from financing activities:			
Proceeds on issue of shares	1,500	1,584	2,712
Proceeds from loans and borrowings	0	0	2,040
Repurchase of shares	(2,333)	(789)	(1,704)
Repayments of loans and borrowings	(5,430)	(830)	0
Repayment of lease liabilities	(3,164)	(2,987)	(6,130)
Repayment of interest rate swaps	0	0	(225)
Net cash used in financing activities	(9,427)	(3,022)	(3,307)
Net cash flows	47	(33)	668
Cash and cash equivalents at beginning of year	697	29	29
Cash and cash equivalents at end of period	744	(4)	697

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NZPM GROUP LIMITED

Notes to the consolidated interim financial statements
For the six months ended 30 September 2020

***Extract**

1. Changes to accounting standards and significant accounting policies

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date. This amendment introduces a practical expedient to IFRS 16 which permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification.

Investment in joint ventures

Joint ventures are those entities over whose activities the parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

There have been no other changes to accounting policies and no other new standards adopted during the period.

2. COVID-19 Pandemic

The Group noted no significant impact on ageing of inventory or inventory written off during the lockdown period. There has been a normal turnaround of product in the domestic market.

The Group did not see a significant increase in local customer default during the lockdown or post-lockdown period to 30 September 2020.

The Group's term debt facilities are subject to a number of externally imposed bank financial covenants. As an essential service provider, the Group traded during the lockdown period and generated the required cash flow and earnings to meet its covenants in the six months to 30 September 2020.

3. Other income

	Unaudited 6 months to 30 Sept 2020 \$'000	Unaudited 6 months to 30 Sept 2019 \$'000	Audited 12 months to 30 Mar 2020 \$'000
Government COVID-19 wage subsidy scheme	3,359	0	240
Tenancy rents received	52	51	104
Other	26	49	66
Total rebate dividends and dividends	3,437	100	410

4. Other operating expenses

	Unaudited 6 months to 30 Sept 2020 \$'000	Unaudited 6 months to 30 Sept 2019 \$'000	Audited 12 months to 30 Mar 2020 \$'000
<i>Other operating expenses include:</i>			
Employee benefits expenses	19,162	19,085	37,943
Depreciation and amortisation expenses	5,236	5,190	10,455
COVID-19 rent concessions	(408)	0	0

5. Capital commitments

On 1 October 2020, the Group signed an agreement for the sale and purchase of real estate for land at Drury South, Auckland.

The purchase price was \$3,006,250. A deposit of 10% of the purchase price was payable on 30 October 2020 when the agreement became unconditional.

6. Events after the reporting period

On 20 November 2020, NZPM declared a final gross rebate dividend for the year ended 31 March 2020, to all ordinary shareholders, of 1.0% per annum of their Grade A cash. In conjunction with the interim gross rebate dividend, to all ordinary shareholders, of 4.0% per annum of their Grade A cash, paid out in September 2020, this takes the total gross rebate dividend for the year ended 31 March 2020 to be the greater of \$300 or 5.0% per annum of Grade A cash.

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