

# Connector

News and views from the Group.



## ***Chair's Interim Report.***

Our NZPM co-operative continues to perform very well in a challenging environment for our customers, staff and suppliers. Like most of the construction industry, NZPM is enjoying a prolonged period of record activity levels at a time when the effects of the COVID-19 pandemic continue to provide significant challenges for business, and the welfare of all New Zealanders.

Operationally, we are managing multiple supply chain challenges from the unsettled flow of product as a result of increased demand, shipping delays and more recently local logistics disruption from Alert Level Lockdowns. We also continue to experience upward pressure on pricing from the strong worldwide demand, commodity pricing and international freight costs.

The significant financial metrics for the period were:

- Consolidated revenue for the six months to 30 September 2021 of \$144.3 million increased by 16% from the same period last year. In both periods, sales reduced when Alert Level 4 Lockdowns restricted NZPM sales to supplying only essential services.
- Our profit before net finance costs, dividends, rebate dividends and taxation (operating profit) for the six months to September 2021 increased 9% to \$9.3 million when compared to the same six month period last year.
- Operating cash outflow of \$3.3 million included the cash payment of our annual rebate dividend to ordinary shareholders of \$8.6 million and an increase in working capital of \$4.3 million. This is a significant change from the prior comparative period which had a cash payment for an interim rebate dividend of \$4.0 million and a release of cash from working capital (\$5.7 million).

Stock availability is a key component of our service proposition, and we have increased our investment in inventory by \$9.4 million (23%) since March 2021, with the growth in volume supporting surety of supply and the expansion of our exclusive and own brand import strategy. A portion of the increase is from supplier price increases, and we are also working with customers who have needed to defer delivery of product to manage their own disruptions.

Continuity of supply is also very challenging as our suppliers experience record levels of demand at a time when their own supply of both imported raw materials and finished goods is subject to a range of supply chain disruptions.

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## ***Chair's Interim Report continued.***

Our suppliers are also struggling to provide the real time information to support our staff in the way that we would normally expect, and this in turn is causing frustration for our people and our customers.

Our staff continue to respond admirably to the complications that come with finding solutions, and they continue to place customer service at the centre of their work, and equally we have sought to support them with increased headcount to manage the growth in volume. During the latest Alert Level 4 Lockdown period, NZPM continued to fully pay wages and salaries; we paid incentives from the year ending March 2021 period and we completed our annual wage and salary review. The wider employment market remains very tight, and we will need to continue to offer competitive terms and conditions to retain and attract new staff to NZPM.

During the period, we opened a new Plumbing World branch in Turangi in conjunction with ITM as our service partner. This smaller branch is fully staffed by ITM and supports our strategy to service our customers in regional locations in ways that make it both economic for NZPM while providing value to all parties in the supply chain. In early November, we also opened a new small format branch in Kilbirnie, Wellington. This new Plumbing World Express branch is designed to service local maintenance customers, and is partnered with our main Wellington branch which will provide the normal full support including planned orders and deliveries to the area.

Our business and technology scoping project is well advanced through the documentation of our current processes and scoping of our future needs. This project, along with investment in our mobile and other edge technology will be a key enabler to our future success as we make it easier for customers and shareholders to interact with NZPM. The utilisation of our pwGO platform continues to steadily increase, and many of our customers are enjoying the ease of downloading our invoices directly into their own systems.

The steady trend of membership growth has continued with 71 new members joining in

the six months to September. The level of new and continuing membership is a key measure in assessing the value proposition that NZPM offers as a co-operative.

All the branch events for the 2021 Young Plumber of the Year (YPOTY) competition have been completed during the period. Seven of the Regional Events were also completed by the beginning of November with only the Waikato region remaining, prior to the National Final now rescheduled for February 2022.

***Our staff continue to respond admirably to the complications that come with finding solutions***

Looking forward, we remain optimistic that the New Zealand construction industry and wider economy will perform well in the medium term. The factors that have driven previous growth including very low interest rates and net migration are not expected to support additional growth, and there are a range of inflationary and supply risks that could dampen demand in the medium to longer term. More than ever, we believe that it is important to continue to reinvest in the business to create future opportunity 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 2021

	Note	Unaudited 6 months to 30 Sept 2021 \$'000	Unaudited 6 months to 30 Sept 2020 \$'000	Audited 12 months to 31 Mar 2021 \$'000
Sales revenue		144,294	124,021	262,929
Cost of goods sold		(101,761)	(87,686)	(183,436)
<b>Gross profit</b>		<b>42,533</b>	<b>36,335</b>	<b>79,493</b>
Other operating income	2	970	3,845	3,926
Share of results of associates		93	39	56
Administration expenses	3	(6,429)	(5,735)	(11,159)
Other operating expenses	4	(27,904)	(25,960)	(51,355)
<b>Operating profit</b>		<b>9,263</b>	<b>8,524</b>	<b>20,961</b>
Finance income		6	5	9
Finance costs		(1,343)	(1,612)	(3,069)
<b>Net finance cost</b>		<b>(1,337)</b>	<b>(1,607)</b>	<b>(3,060)</b>
Rebate dividends and dividends	5	(9,240)	(4,589)	(5,993)
<b>(Loss)/profit before income tax</b>		<b>(1,314)</b>	<b>2,328</b>	<b>11,908</b>
Income tax expense		(2,227)	(1,968)	(5,145)
<b>(Loss)/profit for the period</b>		<b>(3,541)</b>	<b>360</b>	<b>6,763</b>
<b>Other comprehensive income/(loss) for the period</b>				
<i>Items that may be classified subsequently to profit and loss:</i>				
Gain/(loss) from foreign exchange differences on translation of foreign operations		1	0	(61)
<b>Other comprehensive gain/(loss) for the period</b>		<b>1</b>	<b>0</b>	<b>(61)</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>(3,540)</b>	<b>360</b>	<b>6,702</b>

\*Extract - this statement has been extracted from the NZPM Group Limited consolidated interim financial statements for the 6 months ended 30 September 2021. The full report is available at [nzpm.co.nz/investor-centre](http://nzpm.co.nz/investor-centre)

**NZPM GROUP LIMITED**

Consolidated interim balance sheet

As at 30 September 2021

**\*Extract**

	Unaudited 30 Sept 2021	Unaudited 30 Sept 2020	Audited 31 Mar 2021
	\$'000	\$'000	\$'000
<b>Current assets</b>			
Cash and cash equivalents	1,365	744	1,125
Trade and other receivables	30,544	30,149	38,290
Right to returned goods asset	1,007	1,219	1,088
Derivative financial instruments	29	10	46
Inventories	50,617	39,164	41,221
<b>Total current assets</b>	<b>83,562</b>	71,286	81,770
<b>Non-current assets</b>			
Property, plant and equipment	18,108	14,941	17,845
Intangible assets	7,885	7,897	7,791
Investment in associate	826	817	731
Right-of-use assets	43,455	47,155	44,723
Derivative financial instruments	32	0	0
Deferred taxation	3,072	2,428	2,642
<b>Total non-current assets</b>	<b>73,378</b>	73,238	73,732
<b>Total assets</b>	<b>156,940</b>	144,524	155,502
<b>Current liabilities</b>			
Trade and other payables	31,836	30,990	33,201
Refund liability	1,449	1,753	1,566
Contract liabilities	1,839	1,545	1,532
Derivative financial instruments	0	170	84
Provisions	3,421	2,883	3,007
Lease liabilities	6,392	5,999	5,883
Taxation payable	1,657	1,164	3,505
<b>Total current liabilities</b>	<b>46,594</b>	44,504	48,778
<b>Non-current liabilities</b>			
Trade and other payables	0	182	0
Loans and borrowings	13,093	4,465	5,643
Derivative financial instruments	0	194	117
Provisions	675	680	823
Lease liabilities	40,636	43,675	41,919
Co-operative share capital	32,016	29,700	30,756
<b>Total non-current liabilities</b>	<b>86,420</b>	78,896	79,258
<b>Total liabilities</b>	<b>133,014</b>	123,400	128,036
<b>Net assets</b>	<b>23,926</b>	21,124	27,466
<b>Equity</b>			
Reserves	(60)	0	(61)
Retained earnings	23,986	21,124	27,527
<b>Total equity</b>	<b>23,926</b>	21,124	27,466

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## NZPM GROUP LIMITED

Consolidated interim statement of cash flows  
For the six months ended 30 September 2021

\*Extract

	Unaudited 6 months to 30 Sept 2021	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 30 Mar 2021
	\$'000	\$'000	\$'000
<b>Operating activities</b>			
Receipts from customers	149,506	122,741	258,118
Receipts from COVID-19 Wage Subsidy and Resurgence Support Payment	706	3,359	3,359
Rent received	58	52	132
Interest received	6	5	9
Income tax received	0	332	0
Dividends received from associates	0	0	42
Other income	61	26	27
Payments to suppliers and employees	(138,977)	(107,028)	(233,178)
Income tax paid	(4,505)	(2,252)	(2,970)
Interest paid on borrowings	(138)	(132)	(236)
Interest paid on lease liabilities	(1,341)	(1,429)	(2,827)
Interest paid on interest rate swaps	(97)	(139)	(257)
Dividends paid to shareholders	(8,575)	(3,988)	(5,144)
<b>Net cash (outflows)/inflows from operating activities</b>	<b>(3,296)</b>	11,547	17,075
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment	0	0	24
Investment in associate	0	(375)	(375)
Purchase of intangible assets	(216)	(170)	(411)
Purchase of property, plant and equipment	(1,332)	(1,528)	(5,512)
<b>Net cash outflows from investing activities</b>	<b>(1,548)</b>	(2,073)	(6,274)
<b>Financing activities</b>			
Issue of new shares	1,663	1,500	3,351
Proceeds from loans and borrowings	7,500	0	2,648
Share payments	(1,068)	(2,333)	(3,376)
Loans and borrowings repayments	(50)	(5,430)	(6,900)
Lease liability payments	(2,961)	(3,164)	(5,839)
Interest rate swaps repayments	0	0	(257)
<b>Net cash inflows/(outflows) from financing activities</b>	<b>5,084</b>	(9,427)	(10,373)
<b>Net cash flows</b>	<b>240</b>	47	428
Cash and cash equivalents at beginning of year	1,125	697	697
<b>Cash and cash equivalents at end of period</b>	<b>1,365</b>	744	1,125

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## 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. The Group has made this election. The reduction of lease payments, resulting from the COVID-19-related rent concession, has been accounted for as a negative variable lease payment in profit or loss.

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

## 2. Other operating income

	Unaudited 6 months to 30 Sept 2021	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 31 Mar 2021
	\$'000	\$'000	\$'000
Government grant - COVID-19 Wage Subsidy and Resurgence Support Payment	718	3,359	3,359
COVID-19 related rent concessions	133	408	408
Operating rental income	58	52	132
Other	61	26	27
<b>Total operating income</b>	<b>970</b>	<b>3,845</b>	<b>3,926</b>

## 3. Administration expenses

The comparative information for 'advertising expenses' for September 2020 has been restated to reclassify marketing rebates of \$1,357,182 to 'cost of goods sold' to conform to this year's presentation.

## 4. Other operating expenses

	Unaudited 6 months to 30 Sept 2021	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 31 Mar 2021
	\$'000	\$'000	\$'000
<i>Other operating expenses include:</i>			
Employee benefits expense	22,077	19,641	39,095
Depreciation and amortisation expense	4,787	5,236	10,293

The comparative information for 'other operating expenses' for September 2020 has been restated to reclassify COVID-19 rent concessions of \$408,000 to 'other operating income' to conform to this year's presentation.

## 5. Rebate dividends and dividends

	Unaudited 6 months to 30 Sept 2021	Unaudited 6 months to 30 Sept 2020	Audited 12 months to 31 Mar 2021
	\$'000	\$'000	\$'000
<i>Amounts recognised as distributions to shareholders in the period:</i>			
Rebate dividends on ordinary shares	8,870	4,204	5,243
Dividends on redeemable preference shares	370	385	750
<b>Total rebate dividends and dividends</b>	<b>9,240</b>	<b>4,589</b>	<b>5,993</b>

On 7 July 2021, NZPM declared a final rebate dividend for the year ended 31 March 2021 to all ordinary shareholders that was the greater of \$300 or 8.0% per annum of ordinary shareholder Grade-A cash. The rebate dividend was fully imputed for tax purposes.

## 6. Capital commitments

Significant capital expenditure of \$1,682,000 was contracted for at the end of the reporting period but not recognised in liabilities (Sept 2020: \$115,000 Mar 2021: \$1,981,000).

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