

THE CONNECTOR

NEWS 'N VIEWS FROM THE GROUP | NOVEMBER 2016

CHAIRMAN UPDATE

Following my update in last month's Connector, it's pleasing to see the continued improvements the co-operative is making for the benefit of both our shareholders and the business.

Aside from the ongoing improvements to our Plumbing World and Metrix service models and financial performance during the first six months of the financial year, our health and safety processes and performance were recognised by ACC in awarding Plumbing World secondary status in the Workplace Safety Management Practices accreditation programme. Our overall safety record remains very good and we are particularly proud of the positive engagement by our staff in this area.

In this issue of Connector, we have incorporated an extract from the NZPM Group Limited consolidated interim financial statements for the six months ended 30 September 2016. The complete financial statements can be found within the Investor Centre section of the NZPM website (www.nzpm.co.nz/investor-centre).

For those of you interested in hearing an update, we're holding a conference call on **Thursday 24 November at 11:00am** to put some more flavour around the interim results and to allow shareholders to ask any questions of the directors that relates to our trading activities.

Compared to the same period last year, NZPM has grown revenue by 12% to \$104.2 million. This increase in revenue was driven by gaining new customers, increased spend from our existing customers, and from higher market demand. There is no doubt that the smooth transition to the new computer system has been a big factor in retaining the support of our existing customers and encouraging new customers to move their business across to Plumbing World. While we had a high level of confidence that the new computer system would meet our needs, it is very pleasing to have secured the support of our shareholder members and wider market for the changes that had to be made.

However, as I've previously reported, our margins continue to remain under significant pressure. Our gross margin percentage fell a full 1% over the prior comparative period due to the highly competitive market and our mix of customers and products. We have seen significant growth from our larger customers which has reduced our average margins as these customers often operate in the intensely competitive commercial sector.

On a positive note, a strong increase in the level of sales of our own brand and exclusive products range has helped to offset some of the downward pressure on our gross margins, and our customer support for this strategically important part of our business



has been fantastic and has given us further confidence to further build on this initiative. Margin improvement will continue to be a significant focus for the management team.

Prudent management of our costs has also allowed us to make additional investment in category management, business development and to further expand our sales support team, and we believe that continued improvement in these areas will be important for further gains in efficiency and in growing and supporting our customer base.

The depreciation and amortisation expense has reduced by \$1.2 million when compared to the same period last year, and the old computer system has now been fully amortised.

The above factors combined to increase our profit before net financing costs, dividends and income tax by \$1.9 million to \$2.8 million.

Profit from continuing operations after net financing costs, dividends and income tax was \$50,000 compared to a loss of \$2.1 million in the prior comparative period. The Profit from continuing operations is stated after charging the 2016 Rebate Dividend of \$1.3 million which was declared during the period (2015: \$1.8 million).

Since the start of this financial year, the continued improvement in earnings and inflows from shareholder investment in new NZPM capital reduced our net external debt from \$10.4 million to \$6.9 million. During the period, we also redeemed the 2014 Rebate Shares and made good progress on redeeming the Development Shares.

Looking forward for the remainder of the financial year, we will continue to refine our computer system, focus on margins and incrementally grow our customer base where it makes sense to do so.

Kind Regards,
John DeBernardo
Chairman

ANNUAL DIVIDEND RATES

The dividend rates for shares issued by NZPM Group Limited (NZPM) are set in advance by the board. The rates are formally reviewed annually or more frequently if there are significant changes in market yields.

The board has reviewed market data on dividend yields for similar investments which have continued to decrease over the last quarter. The board has determined the Annual Dividend Rate for Redeemable Preference Shares will be reduced from 6.5% to 6.25% per annum (pre-tax).

At the Annual General Meeting, we announced that from 1 December 2016, NZPM would add three new classes of Redeemable Preference Share. These new classes offer longer dated investment maturities of two, three and four years with fixed dividend rates. For investors who elect to invest in these longer dated maturities, the shares may only be redeemed on maturity rather than at the end of each three month period. Dividends will be paid quarterly.

The dividend rates for the suite of maturities offered by NZPM have been set as follows:

- Quarterly maturity – 6.25%
- Two year maturity – 6.15%
- Three year maturity – 6.40%
- Four year maturity – 6.40%

The new rates will take effect from 1 December 2016 and will be subject to review in future quarters.

All existing Redeemable Preference Share investments will continue to default to the quarterly maturity. To apply for the new fixed investment period, please contact Cheryl Coulter (cheryl.coulter@nzpm.co.nz).

NZPM will continue to monitor market dividend yields for similar investments and will continue to take advice as required to ensure that we are offering competitive returns to our investors.

The board wishes to thank all shareholders for their continued support of NZPM.

Brett Cruickshank
Chief Financial Officer

A MESSAGE FROM PLUMBING WORLD'S GM

As many of you will know, Plumbing World has been in a legal dispute with Astivita Australia regarding the use of the Astivita brand name in New Zealand. Plumbing World uses the Astivita name as a house brand for products that we source directly from a range of Asian and local suppliers.

While Plumbing World has been a strong supporter of the brand, we have settled the legal dispute by agreeing to transfer our rights to use the brand in New Zealand back to Astivita Limited in Australia.

The terms of the settlement are confidential, however, I can say that Plumbing World and Astivita Australia are both happy with the agreement that includes the right for us to retain exclusive use of the Astivita brand until August 2017 to allow us to trade out product, packaging and marketing materials.

Plumbing World will soon replace the Astivita branding on the products that we source directly with a new brand. We will be in a position to communicate this new and exciting brand name to our customers in the first part of next year.

Thank you for the continued support of your cooperative - it is appreciated.

Regards,

Rob Kidd

General Manager, Plumbing World

DIRECTOR'S POINT OF VIEW

It's always difficult to know what level of communication you as shareholders wish to receive. We all get a tirade of information everyday either by phone, email, text or by other means. Disseminating the good from the unnecessary is a constant part of my day that takes up valuable time.

Plumbing World surveyed shareholders some time ago and we reviewed the outcomes at our last Board Meeting. A couple of comments were about the level of communication and access to Board members for discussing issues you have as shareholders. For myself I always enjoy receiving feedback, good or bad, as it gives us the opportunity to look at what we're doing and whether we can do it better.

As you are aware we have various levels of Shareholder communication via The Connector, annual and half yearly reports along with the Roadshow that visits most or all branches. I try and make time during the Roadshow road trips I attend to meet shareholders to hear what they have to say.

With all the various means of communication how would you like the Board to engage with you? More face to face meetings? Regular emails with snippets of information? Videos or podcasts?

Let us know how it would be best for us to communicate with you - we would certainly appreciate your feedback: info@nzpm.co.nz

Regards,

Mark Whitehead



WEBINAR REMINDER

John DeBernardo and Brett Cruickshank would like you to join them for a webinar. They will be discussing the six monthly NZPM Financial result.

DATE: Thursday 24th November 2016

TIME: 11am NZDT

<https://attendee.gotowebinar.com/register/8005415896906882306>

Please click on the above link to register for this webinar and follow the required instructions.

GO FOR GOLD PROMO

During August, branches were competing in our Go For Gold promotion, based on Sales of "Gold" products (which also attracts a 2% quarterly trading rebate for Shareholders).

Fantastic that 25 Branches reached their GOLD targets, well done everyone.

The North Shore Branch were the lucky recipients of having Kieran Read in attendance for a function with Shareholders, Staff and their families.

A great few hours was had by all, as everyone got to mix and mingle with Kieran. Rob Kidd conducted a Q n A session, which gave us further insights into the lives of an All Black and what have been Kieran's highlights so far this year on the rugby field. Kids were then treated to some rugby tips and passes with Kieran outside.

Right now Kieran is overseas on the All Black's end of year tour and currently heading to Europe. Following this, Kieran gets a well earned break. This coming January, Kieran and his wife Bridget are looking forward to welcoming their 3rd baby into the family.



SAVE THE DATE

Master Plumbers' have set the date for next years NZ Plumbing Conference. Be sure to pop it in your calendar!

If you register before 16 December 2016, you go in the draw to win an Air New Zealand Mystery Break for two! To register your interest, click [here](#).

When: 10-12 April 2017

Where: Rutherford Hotel, Nelson

If you would like more information, check out the Master Plumbers Website: www.masterplumbers.org.nz



PEDAL TO THE METAL

Last month Plumbing World and Rinnai took 9 lucky customers across the ditch to experience the thrills and spills of Bathurst.

The tour began with views from the Blue Mountains before continuing on to the track where they enjoyed live commentary from Fabian Coulthard.

Fabian shared his V8 racing experiences with the group in the coach during a drive around the track. Fabian gave them some insight to where he'd be increasing the throttle heading into the corner at 180ish' km/hr.

The group stopped for photos with Fabian at the top of Mt Panarama, and heading down the straight where he told them he'd now be hitting the throttle traveling at 300 km/hr.

On day 2 and 3, they headed to the track early and familiarised ourselves with the track, the Pits, and a look inside Fabian's garage before enjoying more racing.

The group headed up the mountain to see the amusing Aussie camp sites, fence signage and humour – each camp vying to outdo the one next to it.

On day 4 the crowds arrived and everyone stood to remember 9-time race winner Peter Brock, the Fighter jets were brought out on show and the racing began.

It was a very action packed few days and the customers and hosts that went had a wonderful experience.



NZPM INTERIM FINANCIAL STATEMENTS

NZPM GROUP LIMITED

Extract *

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

For the 6 months ended 30 September 2016

Six months ended	(Unaudited) Group 30/09/2016 \$'000	(Unaudited) Group 30/09/2015 \$'000	(Audited) Group year ended 31/03/2016 \$'000
Continuing operations			
Revenue	104,151	92,735	183,380
Cost of sales	(74,818)	(65,685)	(129,900)
Gross profit	29,333	27,050	53,480
Other income	68	301	383
Depreciation and amortisation expenses	(1,110)	(2,300)	(4,375)
Other operating expenses	(25,480)	(24,186)	(47,769)
Profit before net finance costs, rebate dividends and dividends paid, and taxation	2,811	865	1,719
Net financing costs	(390)	(704)	(1,193)
Rebate dividends and dividends paid	(1,729)	(2,277)	(2,770)
Profit/(loss) before taxation	692	(2,116)	(2,244)
Taxation (expense)/credit	(642)	48	(21)
Profit/(loss) for the period from continuing operations	50	(2,068)	(2,265)
Discontinued operations:			
Loss for the period from discontinued operations	0	(4,271)	(4,392)
Profit/(loss) for the period	50	(6,339)	(6,657)
Other comprehensive income/(loss):			
<i>Items that may be reclassified subsequently to profit and loss:</i>			
Exchange differences on translation of foreign operations	0	4,271	4,271
Total other comprehensive income for the period, net of taxation	0	4,271	4,271
Total comprehensive income/(loss) for the period	50	(2,068)	(2,386)

* Extract - this statement has been extracted from the NZPM Group Limited Consolidated Interim Financial Statements for the six months ended 30 September 2016. The full report is available at www.nzpm.co.nz/investor-centre

NZPM GROUP LIMITED
Extract *
Condensed consolidated interim statement of financial position
As at 30 September 2016

As at	(Unaudited) Group 30/09/2016 \$'000	(Unaudited) Group 30/09/2015 \$'000	(Audited) Group 31/03/2016 \$'000
ASSETS			
Current assets:			
Cash and cash equivalents	323	0	337
Trade and other receivables	26,385	27,932	29,290
Current tax assets	0	450	0
Inventories	29,803	26,867	29,474
Total current assets	56,511	55,249	59,101
Non-current assets:			
Property, plant and equipment	4,014	4,095	4,338
Intangible assets	9,113	8,835	8,733
Investments in associates	2,624	2,582	2,635
Deferred tax assets	2,084	1,514	2,084
Total non-current assets:	17,835	17,026	17,790
Total assets	74,346	72,275	76,891
LIABILITIES AND EQUITY			
Current liabilities:			
Bank overdraft	0	490	0
Trade and other payables	21,461	18,129	22,788
Loans and borrowings	977	9,026	1,032
Other liabilities	3,579	2,054	2,037
Current tax liabilities	263	0	188
Co-operative share capital	11	108	597
Total current liabilities:	26,291	29,807	26,642
Non-current liabilities:			
Loans and borrowings	6,244	1,721	9,703
Other liabilities	1,745	1,805	1,731
Co-operative share capital	26,680	25,288	25,479
Total non-current liabilities:	34,669	28,814	36,913
Total liabilities	60,960	58,621	63,555
Net assets	13,386	13,654	13,336
Equity:			
Retained earnings	13,386	13,654	13,336
Total equity	13,386	13,654	13,336

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NZPM GROUP LIMITED

Extract *

Condensed consolidated interim statement of cash flows

For the 6 months ended 30 September 2016

Six months ended	(Unaudited) Group 30/09/2016 \$'000	(Unaudited) Group 30/09/2015 \$'000	(Audited) Group year ended 31/03/2016 \$'000
Cash flows from operating activities:			
Cash receipts from customers	107,056	90,488	177,760
Interest received	25	2	14
Dividends received from associates	78	108	137
Other income received	1	2	2
Cash paid to suppliers and employees	(101,642)	(85,325)	(171,318)
Taxation paid	(561)	0	0
Interest paid	(431)	(685)	(1,188)
Rebate dividends and dividends paid	(166)	(340)	(519)
Net cash generated by operating activities	4,360	4,250	4,888
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	15	57	63
Acquisition of intangibles	(638)	(532)	(1,738)
Acquisition of property, plant and equipment	(543)	(812)	(1,794)
Cash paid on disposal of subsidiaries	0	0	(1,948)
Net cash inflow on disposal of subsidiaries	0	27,756	29,798
Net cash (used in)/generated by investing activities	(1,166)	26,469	24,381
Cash flows from financing activities:			
Proceeds from issue of shares	1,966	1,884	2,791
Payment for share buy-back	(1,660)	(1,631)	(2,173)
Repayment of finance lease	(514)	(637)	(1,149)
Repayment of borrowings	(3,000)	(27,000)	(26,500)
Repayment of interest rate swap	0	(524)	(548)
Net cash used in financing activities	(3,208)	(27,908)	(27,579)
Net (decrease)/increase in cash and cash equivalents	(14)	2,811	1,690
Cash and cash equivalents at the beginning of year	337	(3,301)	(1,353)
Cash and cash equivalents at the end of the period	323	(490)	337

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PURPOSE

To contribute to our members' and customers' business success by representing their interests and delivering performance excellence

PART OF THE NZPM COOPERATIVE

plumbingworld

