

# Methven Limited

RESULTS FOR THE YEAR ENDED 31 MARCH 2015

## Positive Earnings Growth as Methven invests for the future

### RESULTS SUMMARY

NZ \$000	2015	2014	Variance %	Constant currency Variance %
Sales revenue	<b>96,349</b>	96,720	-0.4%	0.7%
EBITDA <sup>1</sup>	<b>12,682</b>	11,286	12.4%	13.4%
NPAT <sup>3</sup>	<b>5,690</b>	4,708	20.9%	22.6%
Net Debt <sup>2</sup>	<b>-22,754</b>	-14,450	57.5%	

### Financial Highlights

- Net Profit After Tax (NPAT) increased 20.9% on the prior year and on a like-for-like currency basis was up 22.6%.
- EBITDA<sup>1</sup> increased 12.4% despite increased investment in our marketing and operational capabilities.
- Sales revenue was up 0.7% on prior year in constant currency but down 0.4% on conversion to NZ dollars.
- Earnings from the China acquisition were realised in the second half of this year and in line with expectations.
- Over \$3.9 million invested in our breakthrough showering system, digital capability and building the team.
- Net debt<sup>2</sup> increased to \$22.8 million, the result of the China acquisition settled during the year, higher than targeted inventory along with investment for the future.
- The Directors declared a fully imputed final dividend of 4.0 cents per share payable on 30 June 2015.
- We remain comfortably within all banking covenant limits.

1 EBITDA is earnings before interest, tax, depreciation and amortisation. Refer note 2 of the financial statements.

2 Refer to the reconciliation of Net debt to the consolidated balance sheet in note 12 of the financial statements.

3 Non-recurring items movement year-on-year was immaterial and adjusted figures are not reported above. Refer note 2(c) of the financial statements.

4 Variance when foreign subsidiary results are translated into New Zealand dollars at the same foreign exchange rate as the prior year.

## Business Review

What we said at the ASM:	How are we tracking:
Deliver US\$2 million annualised NPAT from Heshan	On track
Launch our new showering system and tapware in all markets in early 2015	ACHIEVED
Launch our new website	ACHIEVED
Achieve double-digit growth in the UK	Earnings yes/Revenue no
Revenue and profit growth in Australia	ACHIEVED
Activity based on sell through	Good progress
Build a business that delivers long term sustainable earnings growth	Good progress

## **CHAIRMAN & GROUP CEO'S REPORT**

We are pleased to report Group net profit after tax (NPAT) of \$5.7 million, an increase of 20.9% over the previous year. This is in line with our previously announced guidance. We are encouraged that during this year, we have made significant investments designed to drive future topline growth.

This year's profit growth has been driven by solid performances in the UK and Australian markets, along with the contribution of our newly acquired premium Chinese manufacturing business, Methven Heshan. The NZ market performance was below our expectations, partly impacted by a key customer further reducing their stock holdings in the last quarter. Our small stand-alone China sales and marketing operation has not delivered to expectations, and we have taken the opportunity to refine our China business model, integrating China manufacturing and sales operations within Methven Heshan.

Reported Group sales revenue of \$96.3 million was down 0.4% on prior year but on a constant currency basis, was up 0.7%. There were modest sales increases in Australia (2.9%) and UK (2.8%). However NZ Sales revenue was down \$0.5 million or 1.6%, partly reflecting the impact of a further stock reduction in the last quarter by a key customer. We believe that we have lost share in 1 of 3 categories and remain focused on reversing this impact with trade and consumer marketing activity in FY16.

Group debt is higher than desired as a result of our acquisition of Methven Heshan, higher than targeted inventory, and the impact of the customer de-stock in the last quarter in New Zealand, though is comfortably within our banking covenant limits.

### **METHVEN HESHAN EARNINGS ON TRACK**

As previously reported, we completed the acquisition of premium tapware manufacturer Invention Sanitary, now Methven Heshan, during the year. As expected, the earnings benefit has been realised during the second half of the year with an NPAT contribution of \$1.1 million. Full year NPAT from Methven Heshan is still expected to be in line with expectations of at least US\$2 million.

Integration into the Methven company has gone well, and we were pleased the operation still boasts a 100% staff retention over Chinese New Year, as well as passing full quality and ethical audit by ISO Global during the year. The operation was further enhanced by the successful implementation of the Group's ERP system and the Methven NZ global Health & Safety standard.

## **LAUNCH OF BREAKTHROUGH 'AIO™' RANGE**

On the 12<sup>th</sup> March 2015, we were proud to launch our new patented shower spray technology, Aurajet®, and industry-first Ecobross (lead and heavy metal free) tapware range globally. The range saw an excellent trade and consumer response at international launch events held at premier locations in NZ, Australia, UK and China, attracting an excellent audience of leading designers, specifiers and customers. Aio™ positions us as a market-leading brand. We are particularly delighted that our new tapware has been shortlisted for an Australian design award, and that both shower and tapware have been nominated by the German Design Council for inclusion in the 2016 German Design Awards.

## **NEW GLOBAL WEBSITE**

Our new global website went live as planned in the second half of the year, and forms the foundation from which to build our capability to tell our proud Methven story and share our product expertise to new consumers around the world.

## **UK DOUBLE DIGIT GROWTH**

At the commencement of the year, our objective was for double digit growth in the UK. Whilst we achieved only modest topline year-on-year revenue growth of 2.8%, we did achieve bottom-line EBITDA<sup>1</sup> growth of 120% to £0.7 million. This was largely due to conscious decision to delay marketing activity whilst our new CEO reviewed market opportunities with the team. We view the result as solid and we now have a good foundation from which to create strong topline growth in the future.

## **AUSTRALIAN GROWTH**

Following a profit and margin decline in the previous year, our objective in the Australian market was profitable growth. This was achieved with Sales revenue up 2.9% and EBITDA<sup>1</sup> up 10.6%. We were able to pass on price increases to offset the significant impact of the weakening Australian dollar against the US dollar, and optimise our cost base to better meet our expectations for the future.

## **ACTIVITY BASED ON SELL THROUGH/UNDERSTANDING CONSUMER DEMAND**

We continue to work with key customers to gain access to their sell out data so that we can better manage our respective inventory positions. We are also far better positioned to learn from consumer activity to generate better return for our customers.

## **LONG TERM PROFITABLE GROWTH**

Last year we set out a three stage plan with the aim of: Delivering long term profitable growth; Thinking and acting like a market leader; Knowing the consumer better than anyone else; and Giving the organisation clarity of focus and priorities for the next three years.

As a part of thinking and acting like the market leader, we have invested \$3.9 million in future-focused projects such as the Aio™ range development and market launch, digital capability, and putting in place new capability to augment existing skills of the team. This incremental investment comprised approximately \$1.6 million expensed during the year and \$2.3 million in capital expenditure.

In the shower market, there are five globally significant spray technologies and now with 'Aurajet®' (as well as Satinjet), Methven owns global IP in two of those five. The task is now to convert our technological lead in to profitable growth. In addition, we have set industry standards in tapware with the launch of our Aio™ range using brass that is lead and heavy metal free, giving consumers increased peace of mind over the quality of brass in contact with water. This range is not only of extremely high quality, high strength and corrosion resistant, it also evidences our ability to set new world standards for materials and manufacture of all our products.

We have also progressed realignment of our organisational structure, capabilities and incentives to support targeted growth.

We are also pleased to announce the relocation of our head office in Auckland to a new market-leading leasehold site that will incorporate manufacturing, distribution, showroom, and consumer experience centre, and will make our operation more efficient.

During the course of the year, we spent thousands of hours in research to better understand our consumers' and customers' needs, including understanding the impact of megatrends on both the bathroom and the kitchen. These insights and our responses will be key to our future success.

During the next year, we will roll out our three year strategy as we prepare to celebrate being 130 years new. The 3 year plan aligns resource and investment with external market and customer opportunities and creates a clear link between the teams' objectives, results and remuneration.

## NET DEBT

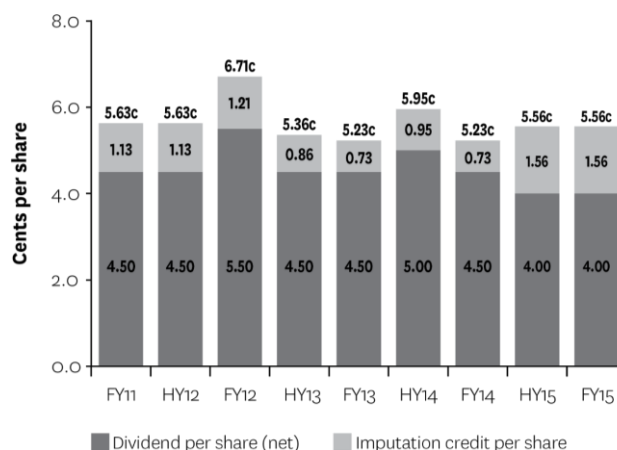
The Net debt<sup>2</sup> increased to \$22.8 million, an increase of \$8.3 million (57.5%) on prior year. This is the result of the China acquisition settled during the year, higher than targeted inventory, an increase of \$2.3 million in capital investment in product development and digital capability. Inventory levels are higher than desired and continue to be an area for targeted reduction throughout the next year. We remain well within our banking covenants.

NZ \$000	2015	2014	Change %
Net debt	<b>22,754</b>	14,450	57%
Capital expenditure	<b>3,433</b>	1,138	202%
Working capital	<b>25,072</b>	18,685	34%
Working capital turn	<b>4.3x</b>	5.0x	

NZ \$000	2015	2014
Interest cover (EBITA/interest) - not less than 2.5	<b>9.1x</b>	10.1x
Gearing ratio (net debt/EBITA) - not to exceed 3.5	<b>2.0x</b>	1.5x

## FINAL DIVIDEND

The Directors have declared a final fully imputed dividend of 4.0 cents per share to be paid on the 30 June 2015.



## Market Review

We have changed our reporting segments from those presented in last year's Annual Report. The changes have been made to align with changes to organisational responsibilities and accountabilities. Prior year comparatives have been restated.

### NEW ZEALAND

NZ \$000	2015	2014	Variance %
Sales revenue	<b>32,114</b>	32,648	-1.6%
EBITDA <sup>1</sup>	<b>4,836</b>	5,909	-18.2%
EBITDA % of Revenue	<b>15.1%</b>	18.1%	-3.0%

#### What we said at the ASM:

#### How are we tracking:

Regain lost market share

2 of 3 categories

Deliver incremental growth in Christchurch

ACHIEVED

Successful launch of new shower system incremental to Satinjet

ACHIEVED

Invest in brand equity

Underway

Win online

Launched/Activity to follow

- Sales revenue down slightly to \$32.1 million. The slight fall is partly a result of further customer de-stocking which impacted sales in the last quarter. We estimate that we have regained market share in two categories, though have not recovered in one. There is a clear focus to turn this around in 2016.
- Christchurch sales increase by 4.5% as activity starts to be seen.
- Investment for the future in Aio™, digital presentation, and augmenting the team caused EBITDA to decrease to a level that we see as a baseline for the future.
- As previously reported, our new 'Aio™' shower and tapware system was launched on time and has received excellent feedback from our customers and as importantly, consumers.

## AUSTRALIA

AU \$000	2015	2014	Variance %
Sales revenue	<b>35,995</b>	34,994	2.9%
EBITDA <sup>1</sup>	<b>2,980</b>	2,694	10.6%
EBITDA % of Revenue	<b>8.3%</b>	7.7%	0.6%

### What we said at the ASM:

### How are we tracking:

Profitable revenue growth

**ACHIEVED**

Successful launch of new shower system incremental to Satinjet

**ACHIEVED**

Tapware share growth

Not in line with expectation

Invest in brand equity

Ongoing

Win online

Launched/Activity to follow

- Sales revenue increased 2.9%.
- EBITDA<sup>1</sup> up 10.6% due to cost base reductions and better operational performance than the previous year.
- Price increases were implemented in the market to offset the negative impact of the weakening AUD/USD and correct the impacts seen in the first half of last year.



## UNITED KINGDOM

GB £000	2015	2014	Variance %
Sales revenue	<b>12,187</b>	11,858	2.8%
EBITDA <sup>1</sup>	<b>675</b>	307	119.9%
EBITDA % of Revenue	<b>5.5%</b>	2.6%	2.9%

### What we said at the ASM:

### How are we tracking:

**Strong revenue and earnings growth**

**Earnings yes/Revenue no**

**Successful launch of new shower system incremental to Satinjet**

**ACHIEVED**

**Complementary positioning for Methven and Deva ranges**

**On track**

**Invest in brand equity**

**Deferred to second half**

**Win online**

**Good progress**

- Solid underlying business performance as revenue grows 2.8%.
- Double digit sales growth was not achieved due to decision to delay marketing activity whilst new CEO, Martin Walker, reviewed opportunities for growth with the team.
- EBITDA<sup>1</sup> increase to NZ\$1.4 million (126%).
- Excellent trade reaction to the launch of Aio™, with market tests now underway in many of London's leading hotel brands. In one Iconic London hotel, guests were asked to mark their shower experience, with the lowest mark achieved of 9/10.

## CHINA MARKET SALES

CN ¥000	2015	2014	Variance %
Sales revenue	<b>1,933</b>	2,022	-4.4%
EBITDA <sup>1</sup>	<b>(39)</b>	913	-66.9%
EBITDA % of Revenue	<b>-2.0%</b>	45.1%	-29.5%

NZ \$000	2015	2014	Variance %
Sales revenue	<b>389</b>	403	-3.5%
EBITDA <sup>1</sup>	<b>(8)</b>	181	-66.3%
EBITDA % of Revenue	<b>-2.1%</b>	44.9%	-29.2%

### What we said at the ASM:

### How are we tracking:

Very strong revenue and earnings growth from a low base

Not Achieved

Invest in brand equity

Deferred

Win online

Not Achieved

- Expected revenue growth has not materialised.
- Decision taken to simplify the business.
- Revised distributor-based sales model implemented to focus on Shanghai.
- Back office functions to be managed from existing resource in Methven Heshan.
- Stand-alone Xiamen office closed.

## GROUP OPERATIONS (Including NZ and China Manufacturing)

NZ \$000	2015	2014	Variance %
Sales revenue	539	1,054	-48.9%
EBITDA <sup>1</sup>	3,282	1,557	110.8%

- Includes:
  - Both NZ and China manufacturing operations.
  - R&D and other Group support functions.
- EBITDA<sup>1</sup> increase reflects acquisition earnings and reduced acquisition costs.

## Balance Date Change

Methven's current balance date of 31 March 2015 results in four unpredictable events all falling within the second half of our financial year, often materially impact our performance in this period. These variables can have a significant impact on the predictability of our full year results until very late in the year. The variables are:

- Historical sales variation in December and January.
- Less trading days in second half.
- Chinese New Year in February means we have committed to stock in December.
- March clearance of stock imbalances by our channel partners.

To help improve forecast accuracy, we are changing our balance date to 30 June. This more evenly distributes the events between the first and second half years. The balance date change is effective immediately with a 15 month transition period commencing 1 April 2015 and ending 30 June 2016.

## **Outlook cautiously optimistic**

**for the full year to 30 June 2016**

We recognise that there is still much work to do to deliver our aims of long term profitable growth and becoming a truly world class business. We remain very focused on delivering these objectives. We are cautiously optimistic that the work undertaken this year, along with planned activity over the coming year, will help us deliver that goal.

### **Guidance - Year ending June 2016**

- Group NPAT growth of 15-25% including benefits from our acquisition.
- Group revenue growth (constant currency) + 5% or above.
- Group debt reduction.

## **The Board**

The Board advises a number of directorship changes. Firstly, that long-serving Independent director Peter Stanes has advised his retirement from the Board with effect from 15 July 2015. The Board would like to express their thanks and appreciation to Peter for his exemplary service over the past 11 years. Throughout this time Peter has chaired the Audit, Complinace and Risk Management Committee and has been a tireless promoter of improving standards at Methven. More recently Peter was an integral part of the team that oversaw our recent acquisition in China.

In January 2015 the Board were pleased to welcome Norah Barlow onto the Board following a thorough and extensive search process. Norah brings extensive financial, commercial and governance experience having been the former CEO and current Board member of NZX and ASX listing Summerset Group Holdings Limited. Norah is now a professional director.

The Board are also pleased to announce the appointment of David Banfield as a director with effect from 25 May 2015. David joined Methven in January 2014 as Group CEO having previously established a track record of building and growing international businesses. The appointment recognises the Board's confidence in David's contribution over the past 17 months and that as a director he will bring a valuable executive and industry perspective to an otherwise independent Board.

## **Financial Statements**

The layout of the financial statements which follow has been changed from previous years to make them less complex, improve readability and to direct the user to the most significant information most relevant to Methven. In line with the requirements of the Financial Markets Conduct Act 2013 Parent financial statements are no longer included.