



Simonds Group

29 August 2018

ASX ANNOUNCEMENT SIMONDS GROUP 2018 FULL YEAR FINANCIAL RESULTS

Simonds Group Limited (Simonds, Group or Company) (ASX: SIO), one of Australia's leading homebuilders, has today released its Appendix 4E Financial Report for the year ended 30 June 2018 (FY18).

On a statutory basis, the Company earned a net profit after tax (NPAT) of \$4.8 million from continuing operations - up 128.6% on the FY17 result. On a pro forma (underlying earnings) basis, NPAT in FY18 was \$6.8 million, a 47.8% increase on FY17.

Results for the year ended 30 June 2018 from continuing operations:

	FY18 Statutory	FY18 Pro Forma¹	FY17 Statutory	FY17 Pro-Forma¹
Revenue	\$605.2m	\$604.6m	\$587.4m	\$587.4m
EBITDA	\$13.7m	\$16.3m	\$10.1m	\$13.8m
NPAT	\$4.8m	\$6.8m	\$2.1m	\$4.6m

¹ Pro forma results reflect adjustments for significant/one-off items as disclosed in the Directors' Report in the full-year financial report, that provides additional and relevant information to shareholders and other users of the financial report on the underlying performance of the Group. A reconciliation of pro forma adjustments to the Group's statutory results is presented in Appendix 1.

FY18 HIGHLIGHTS

- 2,500 home starts in FY18 (FY17: 2,391 home starts)
- Strong margin growth in Simonds Homes
- Balance sheet returned to a positive net asset position
- Strong, industry-experienced executive team to take the Group forward under the new CEO/MD appointed in March 2018
- Builders Academy Australia (BAA) secured funding with contract renewals
- Significant reduction in net debt position, with increased headroom under existing banking facilities
- Subsequent to the end of the financial year, the Group extended the maturity of its banking facilities with the Commonwealth Bank of Australia (CBA) to September 2021.

FY18 OVERVIEW

Commenting on the results, the Group CEO and Managing Director Kelvin Ryan said:

“Simonds has made substantial progress in its business improvement program, ensuring it is well positioned for future growth. Since joining the Group in March 2018, our focus has been directed towards:

- Actioning the already established ‘back to basics’ program, which is aimed at improving margins, establishing general business disciplines and restoring the health of the balance sheet;
- Rebuilding the executive management team to focus on growth and executing the delivery of the strategic plan;
- Positioning the business to unlock opportunities across the board, through its product range, sales and marketing initiatives and partnering with key stakeholders; and
- Developing a comprehensive strategic plan based on a ‘grow and prosper’ principle to deliver sustainable outcomes and take the business forward over time.

Our strategic business imperative is to leverage the longevity of the Simonds brand and its characteristics of build quality and on-time delivery, backed by a safe and efficient home building process. These are the fundamentals of our business, and we are fully committed to maximising shareholder value through these core strengths.”

FINANCIAL RESULTS REPORTED FOR FY18

Gross revenue for the period was \$605.2 million, representing an increase of \$17.8 million or 3.0% on FY17.

Gross profit for the Group increased 5.9% on prior comparative period, reflecting shift in product mix and strengthening of cost control measures.

Net operating cash flows for the Group were \$8.8 million, an increase of \$1.7 million or 24.3% on FY17, driven by improvements in results and working capital management.

The Group returned to a positive net asset position at 30 June 2018, with net assets of \$1.0 million, a \$4.1 million improvement on 30 June 2017.

The key balance sheet movements during FY18 were:

- Increases in Trade Receivables as well as Trade and Other Payables. Receivables were \$2.2 million (6.7%) higher while Trade and Other Payables rose by \$10.6 million (17.3%) due to increased jobs under construction.
- \$19.7 million (40.9%) increase in inventories, including display homes constructed and available for sale.
- Net debt was reduced by \$3.9 million, with borrowings of \$8.1 million at 30 June 2018, mainly driven by improvement in results and working capital management. The Group has improved its debt position substantially over the past two years, providing additional headroom for growth.
- Headroom under the Group’s existing CBA facilities including cash and bank balances was \$35.8 million at 30 June 2018.

Subsequent to the end of the financial year the Group’s secured an extension to its banking facilities with CBA to September 2021.

During FY18 the Simonds Homes Display Fund maturity was extended to 30 September 2019.

SIMONDS HOMES¹

Key Financial Metrics

	FY18	FY17	% change
Revenue	\$593.1m	\$569.9m	4.1%
Pro forma² EBITDA	\$15.9m	\$12.0m	32.5%
Site starts³	2,500	2,391	4.6%
Total display homes	122	117	4.3%

¹ Excludes Madisson Projects, as it is a discontinued operation.

² Pro forma information is reported to give information to shareholders and other users of the financial report that provides a greater understanding of the underlying performance of the business. A reconciliation of pro forma adjustments to the Group's statutory results is presented in Appendix 1.

³ Excludes any display or speculative home starts.

FY18 saw revenue, earnings and margins improve in the Simonds Homes business, with consistent home starts delivered across all regions. Margins improved through changes in the product mix and strengthening of business disciplines to minimise product customisation and enhanced cost control measures.

BUILDERS ACADEMY AUSTRALIA (BAA)

Key Financial Metrics

	FY18	FY17	% change
Revenue	\$11.2m	\$13.4m	(15.7%)
Pro forma¹ EBITDA	\$0.8m	\$1.3m	(38.0%)

¹ Pro forma information is reported to give information to shareholders and other users of the financial report that provides a greater understanding of the underlying performance of the business. A reconciliation of pro forma adjustments to the Group's statutory results is presented in Appendix 1.

Whilst revenue and earnings fell in the BAA business, strong course enrolments have been recorded, plus the business successfully renewed its existing state government funding contracts and secured a new federal government contracts. The extension of course durations, along with the shift in students undertaking dual courses to single courses, has had an impact on both results and the number of students graduating.

CORPORATE UPDATE

The Board was restructured in September 2017 and Kelvin Ryan commenced as CEO and Managing Director in March 2018. The Board is delighted with Kelvin's appointment, as he possesses extensive experience in the volume home building industry as CEO of BGC Residential. Kelvin has strengthened the executive leadership team, driving the strategic direction of the Group to leverage Simonds' strong brand to achieve growth and increased profitability.

DIVIDENDS

The Directors have determined that no dividend will be declared in relation to the year ended 30 June 2018.

DELIVERING SHAREHOLDER VALUE

The Company is now well positioned to continue to capitalise on strong margin and profitability improvements, as well as introducing new initiatives to underpin continuing improvement in financial results and future growth.

The substantially new, invigorated and experienced executive team led by the Managing Director/CEO can continue to deliver medium and long-term sustainable financial results. The Group's business focus is being reflected in improved site starts, margins and (site start) values. The business continues to improve its market penetration, sales and ultimately, its site starts, by strengthening relationships with land developers, locating display homes in major growth zones, consolidating its product range and continuing to innovate and release new product.

ANNUAL GENERAL MEETING

The Company will hold its Annual General Meeting on 21 November 2018.

- ENDS -

For more information, please contact:

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Appendix 1: Statutory to Pro-forma Reconciliation

	FY18 Revenue \$m	FY18 EBITDA \$m	FY18 NPAT \$m	FY17 Revenue \$m	FY17 EBITDA \$m	FY17 NPAT \$m
Statutory to pro forma reconciliation						
Statutory result from continuing operations	605.2	13.7	4.8	587.4	10.1	2.1
Impairment of non-core development land and other current assets ¹	-	0.4	0.3	-	1.4	1.0
Transaction related costs ²	-	-	-	-	1.8	1.2
Business review and management restructure costs ³	-	1.8	1.3	-	0.5	0.3
Remove activity of divested business ⁴	(0.6)	0.4	0.4	-	-	-
Pro forma⁵ result	604.6	16.3	6.8	587.4	13.8	4.6

1. Impairment of non-core development land and other current assets relates to legacy land holdings which form part of the Developments business.
2. On 31 August 2016, the Group announced a Scheme Implementation Agreement with SR Residential Pty Ltd ("SR Residential" or "Consortium") (which is jointly owned by entities associated with Roche Holdings Pty Ltd and Simonds Family Office Pty Ltd) under which it was proposed that SR Residential would acquire all shares in the Company not already owned by associates of the Consortium by way of the Scheme. On 28 November 2016, the Group announced that the Scheme Implementation Agreement has been terminated by mutual agreement of the Group and SR Residential. During this process, the Group incurred transaction costs of \$1.817m for year ending 30 June 2017.
3. Business review and management restructure costs relate to senior management changes and a business review that took place during the year.
4. Divestment of Hub Group during 1HFY18, with the associated operating results of Hub and loss recognised on divestment removed from continuing operations.
5. Pro forma results exclude the impact of significant/one-off items in the year as detailed above. The presentation of non-IFRS financial measures is considered useful for the users of this information as it provides additional and relevant information that reflect the underlying financial performance of the business.