# Big River Industries Limited (ASX:BRI)

## Results Announcement – Financial Year Ending 30 June 2019

**27 August 2019**

**Headlines**

- Revenue of $218m, up 3.3% on FY18, continued the expansion of the Group, although was down 3.7% on a like-for-like basis.
- EBITDA of $9.8m (prior to acquisition costs of $0.6m) was assisted by an improved second half and acquisition contribution, although was down 10.6% on FY18.
- A slightly stronger second half result was achieved despite challenging conditions across the construction markets. Continued strength in Victoria and solid results from smaller city distribution centres helped offset the weakening markets in NSW and QLD.
- NPAT of $3.9m, although down 25.5% on FY18, was a marked improvement from the 38.2% decline reported at the half-year.
- Distribution gross margin of 18.2%, up 29 bps from 17.9% in FY18.
- Strong cost control at manufacturing saw $4.5m in cash costs stripped out in FY19, which helped deliver a manufacturing contribution down only 12.3% from FY18 despite production volumes being 20% lower. The focus towards higher margin specialty products also assisted the manufacturing metrics.
- Imported formply revenue grew by 80% and follows a similar increase in FY18, helping to offset the decline in manufacturing revenue.
- Expansion of the distribution network continued during the period, with the successful acquisition of MB Prefab in Geelong completed in December 2018, Midland Timbers in Perth in May 2019 and the Plytech and Decortech businesses in Auckland in June 2019.
- A final dividend declared of 2.2 cents per ordinary share fully franked; takes the full year payout to 4.4 cents per ordinary share, or 66% of NPAT.
- Overall, despite a challenging year, solid progress was made in expanding the scale of the Group, with the continued successful execution of our acquisitive growth strategy and the new organisational structure delivering some positive early signs.

| RESULTS SUMMARY | | | |
|---|---|---|---|
| **REVENUE** | **FY2019 ($m's)** | **FY2018 ($m's)** | **Change** |
| **Total Revenue** | **217.8** | **210.9** | **3.3%** |
| **EBITDA & Profit** | **FY2019 ($m's)** | **FY2018 ($m's)** | **Change** |
| Distribution activities | 11.3 | 12.0 | -6.4% |
| Corporate expenses | (3.3) | (3.1) | -4.4% |
| Manufacturing facilities | 1.8 | 2.1 | -12.3% |
| **EBITDA (before acquisition costs)** | **9.8** | **11.0** | **-10.6%** |
| Acquisition costs | (0.6) | (0.3) | -110.9% |
| **Statutory EBITDA** | **9.2** | **10.7** | **-14.0%** |
| Depreciation & amortisation | (2.7) | (2.5) | -6.8% |
| Interest | (1.0) | (0.8) | -27.9% |
| Taxation Expense | (1.6) | (2.2) | 25.8% |
| **NPAT** | **3.9** | **5.2** | **-25.5%** |
| **NPATA** [1] | **4.2** | **5.5** | **-23.8%** |

[1] NPATA = NPAT before post tax amortisation of acquired intangibles.

**Trading Summary**

After a variable first half in FY19, trading in the second half of the financial year stabilised somewhat despite a weakening macro environment. This resulted in 2H19 revenue of $112m taking the full financial year revenue to $218m.

Revenue fell 3.7% short of FY18 on a like-for-like basis, although given the active decline in manufacturing volumes, the lower 2.5% like-for-like decline in distribution revenue was a more accurate measure of Group sales performance. Despite the material reductions in high-density residential starts, the formwork segment grew solidly in 2H19, offsetting the declines from 1H19 to help deliver revenue growth of 1% for the full financial year in this segment. Higher sales and improved market share in formply, LVL structural beams and steel decking drove this outcome, pleasing in an overall declining market.

The second half also saw improved commercial construction activity after several project delays that impacted 1H19. This was the primary driver for formwork segment revenue growth of over 5% in 2H19. Infrastructure construction continued to be solid although no major projects dominated the revenue contribution from this sector.

Residential construction markets declined across all states, including in the detached housing and the alteration and additions markets. Market share gains however, saw Queensland sales grow 2.7% in a declining market. Victorian revenue also benefited from improved market share and strong early results from the Geelong acquisition, helping the building products revenue grow 9% for the full year, although slightly down a like-for-like basis.

Whilst plywood and specialty product revenue fell by over 10% on a like-for-like basis, the pipeline across civil projects looks strong for FY20 due to increased funding for local and state governments for regional bridge upgrades, as well as the significant infrastructure spend continuing across all states. The commercial project pipeline also remains positive, and the specialty product range marketed by the New Zealand businesses remain well placed in this sector.

**Balance Sheet & Cashflow**

Net debt at 30 June 2019 was $15.1m, an increase of $6.7m on the 30 June 2018 position. This increase was almost entirely due to the cash component of the acquisitions (MB Prefab and Midland Timber) settled during the period totalling $6.6m. The $14.7m cash component of the New Zealand acquisitions was paid in July 2019 and was partially offset by the $6m raised from the placement of shares also completed in July 2019.

Whilst trade working capital (TWC) grew $9.6m, this was all as a result of the additional TWC from the acquisitions during the financial year. The TWC ratio to revenue was 17.8% (including pro forma revenue from acquisitions) and was within the Board's target range for this ratio.

Gearing levels (measured as net debt to net debt plus equity) were below 20% at 30 June 2019 despite the two acquisitions settled during the financial year. However, gearing will initially rise to approximately 27% following the $6m raised from the recent placement and payment of the cash component for the New Zealand businesses and the purchase of Big Hammer in Townsville.

A final dividend of 2.2 cents per ordinary share fully franked, balances the sound cash flow of the business, whilst maintaining as much headroom as possible to execute the acquisition opportunities that will help expand the scale of the Group.

**Outlook**

Significant investments made in FY19 will deliver growth in both revenue and EPS in FY20.

Recent months have seen activity levels stabilise and a more positive outlook is expected towards the end of FY20. An improved outlook for commercial construction in both Australia and New Zealand is expected to balance the decline in residential activity.

Whilst some margin pressure is expected in a declining market, the increased focus on higher margin differentiated products will help offset this pressure, and the gross margin improvement seen in FY19 is expected to continue in FY20.

Market consolidation opportunities continue to present themselves and expanding the network remains a major component of the Company's strategy, notwithstanding reduced bank facility headroom following recent acquisitions. These opportunities will be actively pursued.

Jim Bindon, Big River CEO, said: "The strategy executed during FY19 is clear on the need to expand scale, and the sales and marketing structure has been resourced in line with this goal. We have a strong pipeline of growth opportunities, both internally and by continuing to pursue industry consolidation".

With a larger business across a wider network of stores, comes a strong medium-term opportunity to expand margin and benefit from economies of scale. This is expected to see EBITDA margins improve over the next two years.

**Conference Call**

Investors are reminded that a conference call will be hosted by Jim Bindon and Steve Parks on Tuesday 27 August 2019 at 11:00am AEST. The dial-in details are as follows:

Toll Free: 1800 558 698

Toll: +61 2 9007 3187

Conference ID: 10001278

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