


# Big River Industries Limited (ASX:BRI)

**1H22 Results Presentation – 25 February 2022**

# Contents



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Home&Trade


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20
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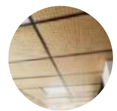
# Big River Business Mix

**Target Categories**



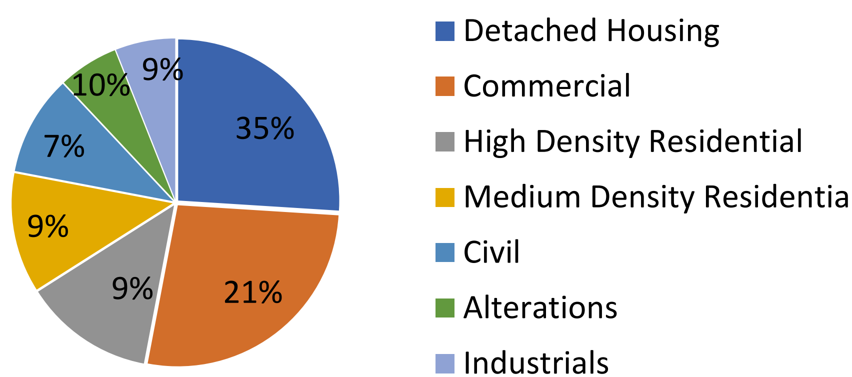


Formwork & Commercial – 26%

Building Trade Centres – 44%

Panels – 30%

**Revenue by Construction Market**

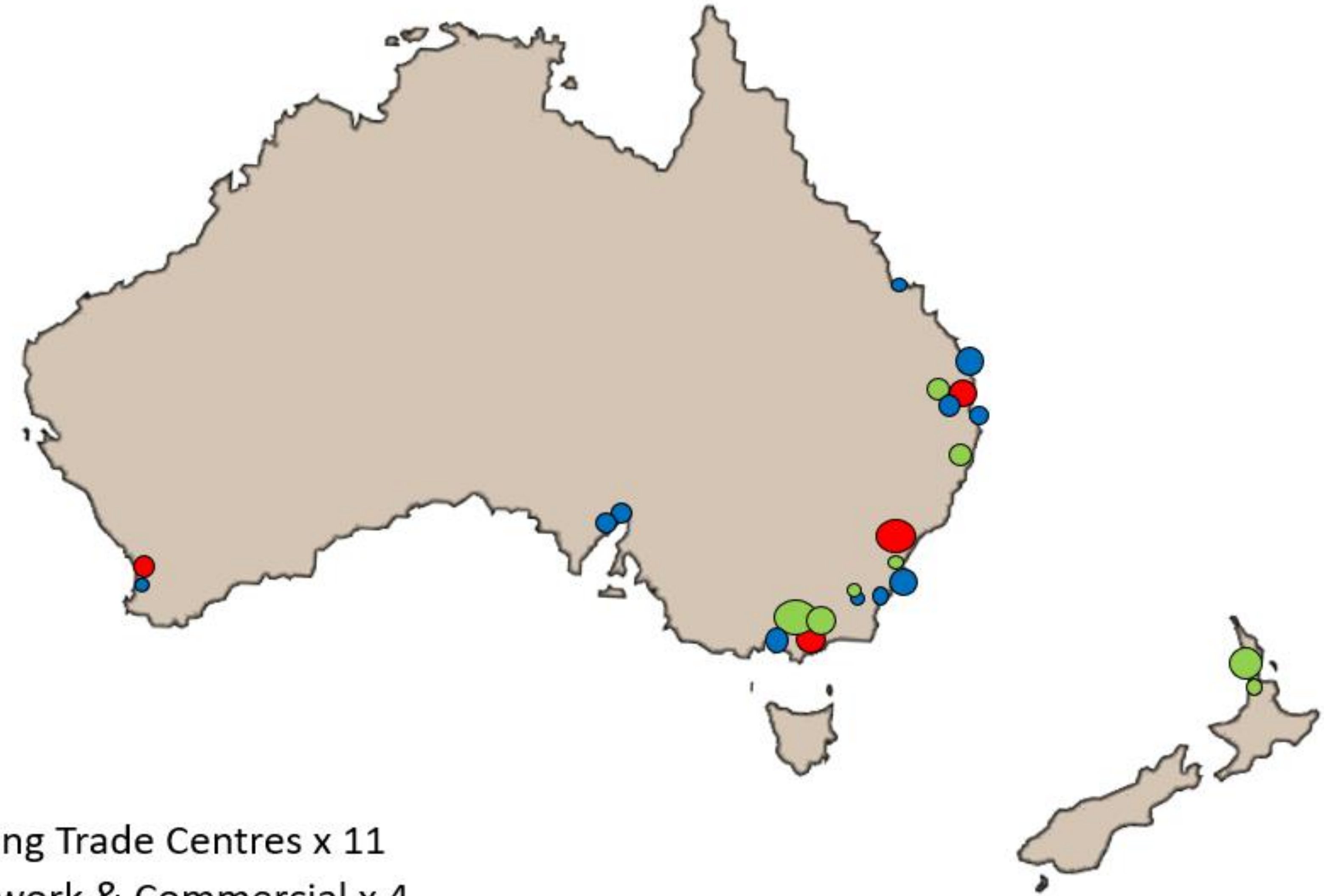



**Revenue by Region**

- QLD – 29%
- NSW/ACT – 24%
- VIC – 23%
- SA/WA – 16%
- NZ – 8%
- >9500 active trading accounts

(1) All references are pro forma 1H22

# Strong geographic and category diversity



- Building Trade Centres x 11
- Formwork & Commercial x 4
- Panels x 8

# Performance Headlines

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**Financial Results**

- 1H22 Revenue of $193.8m, up 45% on 1H21
- Like for like sales revenue increased 14%, with now six consecutive quarters of accelerated revenue growth
- Underlying EBITDA of $21.5m, an increase of 115% on the 1H21
- Underlying NPAT increased by $6.7m or 204% to $9.9m
- Working capital to sales ratio was solid at 17.6%, albeit slightly elevated on higher inventory holdings
- Cash conversion at 73%, a sound result given the higher inventory investments

**Operating Highlights**

- Revenue growth achieved across all geographic markets, with the strongest growth seen in QLD and South Australia
- Continued gross margin expansion, with improved product mix and disciplined ability to pass through cost increases
  - 1H22 gross margin up 200bps versus 1H21[1]
- Despite significant supply chain challenges in 1H22, inventory levels increased to ensure stock availability and secure strategic market advantage, helping deliver the significant profitability uplift

**Strategic Initiatives**

- Implemented a new 3-year strategic growth plan and modified reporting structures to achieve enhanced focus and strategy execution
- Completed acquisitions of United Building Products in The Illawarra and Revolution Wood Panels in Brisbane
  - This adds pro forma revenue of circa $40m per annum
- Plywood consolidation project progressing well, with all Wagga operations ceased and staff redundancies finalised
  - Sale process of the Wagga Land & Buildings commencing in 2H22

[1] In 1H22, direct labour from manufacturing operations is included in "Raw materials" resulting in a gross margin of 26.5%, an increase of 200bps on 1H21. When calculated on a like-for-like basis, the prior period (1H21) gross margin is 24.5%. In 1H21, $5.0m of direct labour from manufacturing operations was recorded in the statement of profit or loss as an "Employee benefits expense“.

# Operational Summary

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| | |
|---|---|
| **Sales Revenue** | ❑ 1H22 revenue of $193.8m, up 45% on the prior period, and tracking ahead of expectation<br>▪ NSW and Victoria growth lagged the other geographies, as these markets were the most impacted by Covid disruption<br>▪ Like for like revenue growth of 14% was achieved across the Company, with QLD showing the highest revenue uplift<br>❑ Building Trade Centres have showed the strongest growth, being the most leveraged to detached housing and renovation markets<br>▪ Like for like growth of 23%, tracking ahead of other categories<br>▪ This has come despite material shortages in several key residential structural timber product groups<br>❑ Formwork & Commercial sites have grown 6% (like for like), while the Panels category is up 15% (like for like) |
| **Operations & Supply Chain** | ❑ International freight availability and container pricing continues to challenge our import supply chain (which accounts for circa 25% of Group revenue)<br>▪ Despite this, imported product margins have held up, with the business having a strong cost pass through ability<br>▪ Increased direct imports contributed to the improved gross margin, but also affected inventory levels<br>❑ Focused cost management despite the general inflationary environment, saw like for like expenses increase 9%, the majority being variable in nature and linked to the strong trading conditions<br>❑ Like for like Inventory increased some $7m or 12% compared to the prior corresponding period, with around 50% of this cost related, and the balance being additional volume |
| **Acquired Businesses** | ❑ Strong contributions made from the acquisitions completed versus the corresponding period in 1H21<br>▪ EBITDA contribution was well above acquisition proposal metrics, and sales growth averaged 14%, consistent with the overall Group performance<br>❑ Further synergy opportunities expected, particularly in the deals completed during the 1H22 |

# Strategy – Divisional realignment to enhance focus

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**Strategic Reasoning**

- New three year strategy developed with strong growth in revenue and profitability targeted, with sustainable EBITDA margins of 10% achievable
- Major growth opportunities across all three divisions, and in multiple geographies
- Increased focus on specialisation (versus generalisation) will enhance market share penetration and identify clear market coverage gaps
- Customer types, product mix and order processes are subtly different between divisions and require a different offer (from a sales and operational perspective)
- Greater synergies will be extracted from the grouping of common businesses within the Company
- Further details to be provided at an upcoming investor Strategy day

**Structural Re-alignment**

- Two business units and three divisions created
- Construction Products unit includes the two divisions of Building Trade Centres and Formwork & Commercial sites
- Newly formed Panels division includes the recent acquisitions in New Zealand, Timberwood Panels and Revolution Wood Panels, as well as the Grafton manufacturing site
- John Lorente and Craig Dorward appointed Executive General Managers of Construction Products and Panels respectively
- A new CFO will be recruited to improve the executive team strength and succession options, while Steve Parks will retain a critical executive role within the Group

# Revised structure highlights growth opportunities

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## Two business units, three divisions

| Strategic Business Unit | Panels | Construction Products | |
|---|---|---|---|
| **Division** | Panels | Building Trade Centres | Formwork & Commercial |
| **Focus** | **Decorative and technical panel solutions for the trade**<br>Architectural / Decorative<br>Commercial Fitout<br>Transport<br>Manufacturers<br>Bridge Systems | **Building Products / Residential**<br>General building<br>Renovations<br>Fitout<br>Frame & Truss<br>Local trade supplier | **Large Construction**<br>Concrete placement<br>Site Works<br>Heavy Construction<br>Bulk Products<br>Distribution Centres |
| **Market Segments** | Residential Housing<br>Alterations & Additions<br>Commercial<br>OEM | Residential Housing<br>Medium Density<br>Alterations & Additions | Commercial<br>Multi Residential<br>Specialist Building<br>Civil / Infrastructure |
| **Customers** | Cabinet Makers<br>Fitout trades<br>Architects/designers<br>Manufacturers & OEM<br>Kitchen and Joinery businesses | Home builders<br>Carpenters<br>Renovators<br>Medium density builders<br>Fitout trades (Flooring, plasters etc) | Formworkers<br>Civil companies<br>Concreters<br>Site contractors<br>Large structural builders |
| **Current sites** | 8 Sites<br>3 Panels Manufacturing plants | 11 Sites<br>3 Frame & Truss manufacturing plants<br>1 x engineered flooring line | 4 Sites<br>2 steel lines<br>1 x plywood manufacturing plant |

# Earnings Summary

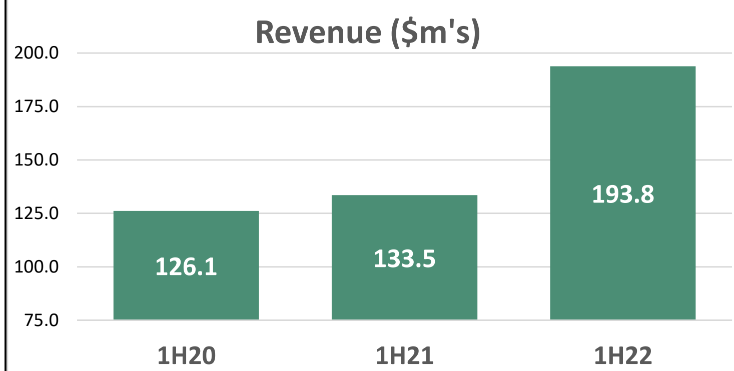
| Financial Summary | 1H22 ($m's) | 1H21 ($m's) | Change |
|---|---|---|---|
| **Revenue** | **193.8** | **133.5** | **45.2%** |
| **EBITDA & Other:** | | | |
| Construction | 13.1 | 7.6 | 73.4% |
| Panels | 10.9 | 4.4 | 147.4% |
| Corporate | (2.5) | (2.0) | -26.7% |
| **Operating EBITDA [(1)]** | **21.5** | **10.0** | **115.0%** |
| Depreciation | (5.3) | (4.2) | -26.9% |
| Amortisation | (0.6) | (0.2) | -170.7% |
| **Operating EBIT [(2)]** | **15.6** | **5.6** | **177.7%** |
| Interest | (1.5) | (1.0) | -53.6% |
| Taxation expense | (4.2) | (1.3) | -202.6% |
| **NPAT (before significant items)** | **9.9** | **3.3** | **203.9%** |
| Significant items (net of tax)* | (1.1) | (9.5) | 88.2% |
| **NPAT** | **8.8** | **(6.2)** | **242.3%** |
| ** Significant items net of tax:* | | | |
| Wagga Wagga impairment | - | (9.3) | |
| Acquisition Costs | (0.7) | (0.2) | |
| Contingent consideration | - | 0.2 | |
| Share based remuneration | (0.4) | (0.2) | |
| Total significant items (net of tax) | (1.1) | (9.5) | |

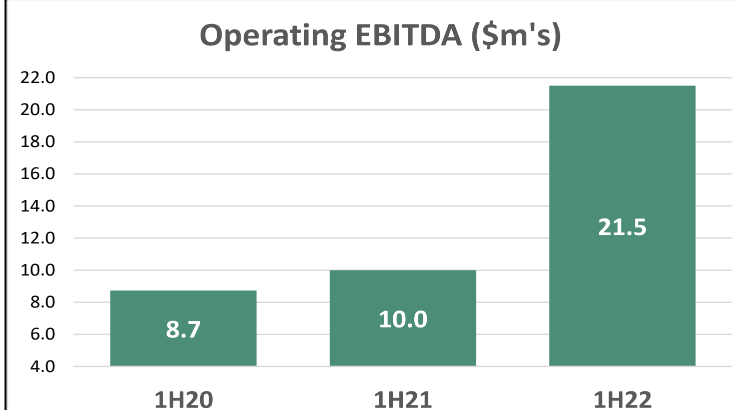
[(1)] Operating EBITDA is earnings before interest, taxes, depreciation, amortisation, and significant items (including impairment charges).

[(2)] Operating EBIT is earnings before interest, taxes and significant items (including impairment charges).

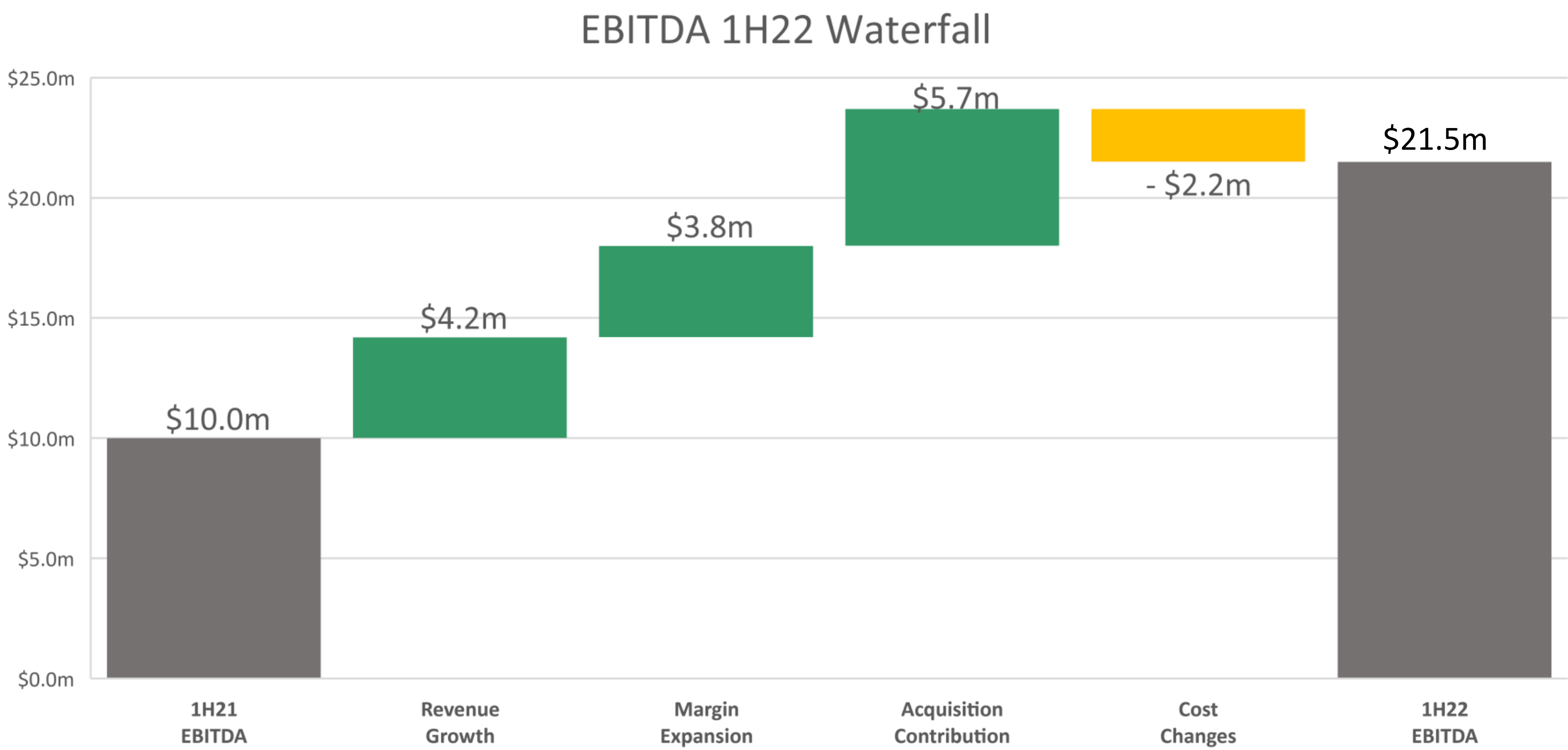
[(3)] OCFBIT is operating cash flow before interest and tax.

| Key Financial Measures | | | |
|---|---|---|---|
| Revenue | $193.8m | ↑ | 45.2% |
| Operating EBITDA [(1)] | $21.5m | ↑ | 115.0% |
| Operating EBITDA margin | 11.1% | ↑ | 48.1% |
| NPAT (before significant items) | $9.9m | ↑ | 203.9% |
| EPS (before significant items) | 12.25 cps | ↑ | 137.4% |
| EPS (statutory) | 10.88 cps | ↑ | 211.2% |
| Cash Conversion (OCFBIT[(3)]) | 73% | ↓ | -15.4% |
| 1H22 Interim dividend | 5.5 cps | ↑ | 111.5% |



# EBITDA 1H22 Waterfall




1. Excellent operating leverage achieved through the 14% organic growth achievement
2. Gross margin improvements of 200 bps driven by multiple improvement measures
   a) Enhanced product mix, particularly growth in the Panels range
   b) Solid operating efficiencies improved manufactured products gross margin
   c) Strong pricing disciplines ensured significant product cost increases were passed through
3. New acquisitions contributed well above the earn-out target run rates built into the deal metrics
4. While like for like operating expenses increased 9%, most of the increases are variable in nature, and linked to the strong trading results.

# Balance Sheet

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| Balance Sheet | 31 Dec 21 ($m's) | 30 Jun 21 ($m's) |
|---|---|---|
| Cash | 6.5 | 7.9 |
| Receivables | 48.8 | 48.0 |
| Government Grant | 3.0 | 6.0 |
| Inventories | 65.4 | 54.1 |
| Fixed assets | 23.1 | 20.8 |
| Right-of-use assets | 26.1 | 22.5 |
| Intangibles | 59.7 | 43.8 |
| Deferred tax | 0.7 | 5.1 |
| Other | 2.2 | 1.6 |
| **Total Assets** | **235.5** | **209.8** |
| | | |
| Payables | 43.1 | 41.2 |
| Borrowings | 38.8 | 27.4 |
| Lease liabilities - Bank | 2.5 | 2.2 |
| Lease liabilities - Right-of-use | 26.6 | 23.5 |
| Current tax liability | 0.9 | 1.0 |
| Contingent consideration | 7.6 | 7.2 |
| Provisions / Other | 11.0 | 12.5 |
| **Total Liabilities** | **130.5** | **115.0** |
| | | |
| **Net Assets** | **105.0** | **94.8** |
| | | |
| *Net Bank Debt $m's* | *34.7* | *21.8* |
| *Gearing %* | *24.9%* | *18.7%* |
| *TWC $m's (exc. Government Grant)* | 71.1 | 60.9 |
| *TWC (% weighted average)* | *17.6%* | *17.3%* |

- Trade working capital (TWC) as a percentage of revenue was 17.6% on a weighted average basis, up marginally from FY2021 of 17.3%
- TWC increased $10.2m in dollar terms, $6.8m being from acquisitions in the half-year plus increases at Timberwood
- Continued improvement in debtor days saw average debtor days reduce to 45 days from 49 days in FY2021
- Increase in intangibles of $15.9m from the acquisition of Revolution and United (includes Brand $0.3m, Customer relationships $6.4m, and Goodwill $9.5m)
- Net bank debt increased by $12.9m to $34.7m due mainly to the payment of the cash component of acquisitions
- Gearing at 24.9% measured as net bank debt / (net bank debt + equity) remains at comfortable levels
- Provision decrease relates to payment of Wagga Wagga redundancy and site rehabilitation costs

# Cash Flow

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| Cash Flow | 1H22 ($m's) | 1H21 ($m's) |
|---|---|---|
| Receipts from customers | 213.2 | 154.8 |
| Payments to suppliers/employees | (201.7) | (147.2) |
| Other revenue | 3.3 | - |
| **OCFBIT** | **14.8** | **7.6** |
| Interest paid | (1.5) | (0.9) |
| Income tax paid | (1.8) | (1.8) |
| **Operating Cash Flow** | **11.5** | **4.9** |
| | | |
| Capital expenditure | (2.9) | (0.3) |
| Business acquisitions | (13.5) | - |
| Intangibles | (0.1) | (0.3) |
| Contingent consideration | (1.8) | (1.2) |
| **Investing Cash Flow** | **(18.3)** | **(1.8)** |
| | | |
| Net proceeds from issue of shares | - | 13.8 |
| Borrowings - proceeds | 10.0 | - |
| Borrowings - repayments | - | (13.6) |
| Net lease payments | (3.6) | (2.6) |
| Dividends paid | (2.3) | (1.5) |
| **Financing Cash Flow** | **4.1** | **(3.9)** |
| | | |
| **Net Cash Flow** | **(2.7)** | **(0.8)** |

- Operating cash flow before interest and tax (OCFBIT) as a percentage of EBITDA remained strong at 73% despite increase in working capital
- $3m of cash payments for Wagga Wagga redundancies and other closure costs offset by receipt of Government grant instalment, so no impact on OCFBIT for the half-year
- Cash benefit received from reduced income tax payments during the half-year (taking advantage of the prior year asset write down at Wagga Wagga)
- Capital expenditure includes $2.7m of civil works and equipment for the Wagga/Grafton site consolidation. A further $3.3m scheduled for 2H22 to complete the upgrade
- Business acquisitions comprises payment of the cash components of the Revolution ($6.0m) and United ($7.5m) acquisitions
- Contingent consideration paid to vendors on achievement of prior year earnout targets
- FY2021 final dividend paid during the half-year of 3.0cps
- FY2022 interim dividend determined for 1H22 of 5.5 cps (up 112%). DRP is available with a 2.5% discount and the following key dates:

| 1H22 Interim Dividend Timetable | Date |
|---|---|
| Ex-Date | 7/03/2022 |
| Record Date | 8/03/2022 |
| DRP election Date | 9/03/2022 |
| VWAP begins | 10/03/2022 |
| VWAP ends | 23/03/2022 |
| Payment Date | 6/04/2022 |

# 2H22 Outlook

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**Market Conditions**

- ❑ Market conditions in 2H22 are expected to remain fundamentally in line with 1H22
- ❑ Construction starts continue to lag approvals, with supply chain and Covid disruptions further impacting this lag. This supports demand from the detached housing sector well in FY23
- ❑ Recent multi-residential approvals growth point to a turn around beginning in FY23
    - Starts are however, still tracking 50% below the last cyclical peaks
- ❑ Civil construction remains strong, with a considerable pipeline of new Brisbane projects in particular

**Strategy Execution**

- ❑ Divisional re-structure implemented, generating enhanced operational focus
- ❑ Acquisition pipeline continues to be solid, with both small bolt on and larger opportunities being considered
- ❑ Financial improvement from increased scale and solid organic growth has fast tracked the medium term goal of enhancing EBITDA margins
- ❑ Expect earnings improvements from new Capex at Grafton manufacturing site, to occur from Q4

**Financial Expectations 2H22**

- ❑ Pro forma sales run rate in 2H22 expected to be in line with 1H22 (albeit with 7 less working days than the 1H22)
- ❑ Gross margin growth seen in 1H22 is not expected to be repeated in the 2H22, as higher cost inventory cycles through the business
- ❑ EBITDA in the 2H22 expected to be slightly below 1H22, but well ahead of 2H21.
- ❑ Additional contribution from Revolution Wood Panels and United Building Products to reduce the impact of the weaker expected 2H22

# Appendix

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| Key Financial Measures | 1H2018 Pre AASB16 | 1H2019 Pre AASB16 | 1H2020 Pre AASB16 | 1H2020 Post AASB16 | 1H2021 Post AASB16 | 1H2022 Post AASB16 |
|---|---|---|---|---|---|---|
| **Profitability** | | | | | | |
| Revenue | $104.6m | $106.0m | $126.1m | $126.1m | $133.5m | $193.8m |
| Operating EBITDA (before significant items) | $5.9m | $4.5m | $6.2m | $8.7m | $10.0m | $21.5m |
| Reported EBITDA | $5.7m | $4.3m | $5.9m | $8.4m | $8.8m | $20.3m |
| NPAT (before significant items) | $3.1m | $2.0m | $2.8m | $2.6m | $3.3m | $9.9m |
| Reported NPAT | $2.9m | $1.8m | $2.5m | $2.3m | - $6.2m | $8.8m |
| Earnings Per Share (cents) | 5.52cps | 3.39cps | 3.95cps | 3.65cps | - 9.79cps | 10.88cps |
| **Cash flow** | | | | | | |
| OCFBIT | $3.4m | $3.8m | $4.4m | $4.4m | $7.6m | $14.8m |
| Operating cash flow | $1.1m | $1.9m | $2.6m | $2.6m | $4.9m | $11.5m |
| EBITDA to OCFBIT % (cash conversion) | 59% | 88% | 74% | 52% | 86% | 73% |
| **Dividends** | | | | | | |
| Dividend | 3.5cps | 2.2cps | 0.0cps | 0.0cps | 2.6cps | 5.5cps |
| Dividend payout ratio (%) | 64% | 65% | - | - | n/a | 51% |

| CASH FLOW ($m's) | 1H2018 Pre AASB16 | 1H2019 Pre AASB16 | 1H2020 Pre AASB16 | 1H2020 Post AASB16 | 1H2021 Post AASB16 | 1H2022 Post AASB16 |
|---|---|---|---|---|---|---|
| Reported EBITDA | 5.7 | 4.3 | 5.9 | 8.4 | 8.8 | 20.3 |
| Non-cash items & working capital changes | -2.3 | -0.5 | -1.5 | -4.0 | -1.2 | -5.5 |
| **OCFBIT** | **3.4** | **3.8** | **4.4** | **4.4** | **7.6** | **14.8** |
| Interest paid | -0.3 | -0.4 | -0.8 | -0.8 | -0.9 | -1.5 |
| Tax paid | -2.0 | -1.5 | -1.0 | -1.0 | -1.8 | -1.8 |
| **Operating Cash Flow** | **1.1** | **1.9** | **2.6** | **2.6** | **4.9** | **11.5** |
| Net capital expenditure | -1.6 | -0.9 | -0.5 | -0.5 | -0.3 | -2.9 |
| Intangibles | - | - | -0.4 | -0.4 | -0.3 | -0.1 |
| **Free cash flow** | **-0.5** | **1.0** | **1.7** | **1.7** | **4.3** | **8.5** |
| Business acquisitions | -3.6 | -4.4 | -16.7 | -16.7 | - | -13.5 |
| Contingent consideration | - | - | - | - | -1.2 | -1.8 |
| Net proceeds from issue of shares | - | - | 6.1 | 6.1 | 13.8 | - |
| Proceeds/(repayment) of borrowings | 3.2 | 3.2 | 8.7 | 8.7 | -13.6 | 10.0 |
| Lease repayments | - | - | - | - | -2.6 | -3.6 |
| Dividends paid | -1.8 | -1.8 | -1.4 | -1.4 | -1.5 | -2.3 |
| **Increase/(decrease) in cash** | **-2.7** | **-2.0** | **-1.6** | **-1.6** | **-0.8** | **-2.7** |

| PROFIT & LOSS ($m's) | 1H2018 Pre AASB16 | 1H2019 Pre AASB16 | 1H2020 Pre AASB16 | 1H2020 Post AASB16 | 1H2021 Post AASB16 | 1H2022 Post AASB16 |
|---|---|---|---|---|---|---|
| **Revenue** | **104.6** | **106.0** | **126.1** | **126.1** | **133.5** | **193.8** |
| **EBITDA from Operations:** | | | | | | |
| - Construction | 6.5 | 5.6 | 5.1 | 7.1 | 7.6 | 13.1 |
| - Panels | 0.8 | 0.7 | 3.0 | 3.5 | 4.4 | 10.9 |
| - Corporate | -1.4 | -1.8 | -1.9 | -1.9 | -2.0 | -2.5 |
| **Operating EBITDA** | **5.9** | **4.5** | **6.2** | **8.7** | **10.0** | **21.5** |
| Depreciation | -0.9 | -1.0 | -1.3 | -3.6 | -4.2 | -5.3 |
| Amortisation | -0.3 | -0.3 | -0.3 | -0.3 | -0.2 | -0.6 |
| Operating EBIT | 4.7 | 3.2 | 4.6 | 4.8 | 5.6 | 15.6 |
| Interest | -0.3 | -0.4 | -0.8 | -1.3 | -1.0 | -1.5 |
| Taxation Expense | -1.3 | -0.8 | -1.0 | -0.9 | -1.3 | -4.2 |
| **NPAT (before significant items)** | **3.1** | **2.0** | **2.8** | **2.6** | **3.3** | **9.9** |
| *Significant items net of tax:* | | | | | | |
| Wagga Wagga Impairment | - | - | - | - | -9.3 | - |
| IPO costs | - | - | - | - | - | - |
| Acquisition costs | -0.2 | -0.2 | -0.3 | -0.3 | -0.2 | -0.7 |
| Contingent consideration | - | - | - | - | 0.2 | - |
| Share-based remuneration | - | - | - | - | -0.2 | -0.4 |
| **NPAT (statutory)** | **2.9** | **1.8** | **2.5** | **2.3** | **-6.2** | **8.8** |

| NET CASH/(DEBT) ($m's) | Dec-17 Pre AASB16 | Dec-18 Pre AASB16 | Dec-19 Pre AASB16 | Dec-19 Post AASB16 | Dec-20 Post AASB16 | Dec-21 Post AASB16 |
|---|---|---|---|---|---|---|
| Cash at bank | 0.8 | - | - | - | 6.4 | 6.5 |
| Overdraft and trade finance | - | -0.2 | -0.8 | -0.8 | -1.4 | -2.8 |
| Bank bills | -8.4 | -11.4 | -22.6 | -22.6 | -12.2 | -36.0 |
| Bank lease libility | -2.3 | -2.2 | -2.0 | -2.0 | -2.0 | -2.4 |
| **Net Bank Debt** | **-9.9** | **-13.8** | **-25.4** | **-25.4** | **-9.2** | **-34.7** |
| Lease liability AASB16 | - | - | | | -18.3 | -26.6 |
| **Total** | **-9.9** | **-13.8** | **-25.4** | **-25.4** | **-27.5** | **-61.3** |
| Gearing * | 14.5% | 18.9% | 26.4% | 26.6% | 10.5% | 24.9% |

* Gearing is measured as: net bank debt / (net bank debt + equity)

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