

Connector

News and views from your co-operative



NZPM Interim Report

Your co-operative has started the year strongly with very good revenue, earnings, cash flow and membership growth. Compared to the same period last year, NZPM has operated in a more stable environment, wherein the prior period included COVID-19 Alert Level 4 lockdowns and 'Traffic Light' restrictions which constrained sales. We continue to focus on customer service and maximising opportunities from the current strong demand, while positioning the co-operative to weather an expected softening in the construction sector in coming months.

The significant financial metrics for the period were:

- Consolidated revenue for the six months to 30 September 2022 of \$169.7 million increased by 18% from the same period last year, where sales reduced when Alert Level 4 lockdowns restricted NZPM sales to supplying only essential services.
- Our profit before net financing costs, dividends, rebate dividends and taxation (operating earnings) for the six months to September 2022 increased 31% to \$12.1 million when compared to the same period last year.
- Operating cash inflow of \$3.2 million included the cash payment of our annual rebate dividend to ordinary shareholders (\$10.6 million), and a decrease in working capital of \$1.9 million.

We continue to grow the sales of our own brand and exclusive product ranges to offset downward pricing pressure. During the period, we paid \$0.3 million of Gold Rebate to our shareholders, an increase from the same period last year.

Operationally, product supply is continuing to improve, with the majority of our suppliers performing closer to pre-pandemic levels. However, we expect to continue to work closely with our suppliers and customers for the foreseeable future as some products continue to be impacted by international logistics and manufacturing challenges.

Like many New Zealand businesses, attracting and retaining a great talent pool of people is not without its challenges, and whilst better than industry averages, our staff turnover is still above our target levels.

NZPM Interim Report continued

We continue to work hard to be an employer of choice, and during the period, we completed our annual remuneration review process which resulted in an average wage and salary increase of 6%. With a couple of exceptions, all our staff are now paid at least \$24/hour which is above the living wage. We continued to expand our employee training offer by introducing a new emerging leader and leaders programme where participants are recognised at the completion of the course with a NZQA certificate and qualification.

Our pwGO technology tool continues to benefit from a programme of investment aimed at continually adding functionality and improving the user experience, and customer utilisation of the product continues to grow with revenue through the pwGO platform doubling over the last 12 months. We have now leveraged the technology to develop pwGO Express which allows customers to use the app to complete a self-checkout at the branch. We have also partnered with SimPro to allow purchasing with pwGO to create a linked purchase order in SimPro to make customer invoicing more efficient.

Tupu Tahi ("Grow Together"), our business technology project, is on track to complete the analysis and design phase before year end, and we anticipate entering a contract with Capgemini to then undertake the build, test and implementation phases of the project with an expected rollout in the second half of next calendar year. These technology investments are a key enabler to our future success as we make it easier for customers to interact with NZPM while bringing efficiencies to all parties.

During the period, we completed a major upgrade of our Plumbing World New Plymouth branch, and this project has transformed the site to improve our offering in that market. The construction of our new building at Drury, Auckland is progressing well with the expected completion date around the end of the financial year. We have also entered a new lease contract to relocate our Metrix showroom to a stunning renovated historical building, still in the heart of Parnell.

The steady trend of membership growth has continued with 62 new members joining in the six months to September, and this was supported by both our service offering and

the payment of an 8% rebate dividend for the second consecutive year. Membership retention and growth continues to be a key indicator in measuring the value proposition that NZPM offers as a co-operative.

At a governance level the Board has retained a stable composition with the re-election of Director Peter Faul at the August Annual Meeting. The Board has also recently undergone a third party review with Westlake Governance,

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and are currently recruiting for a second Appointed (Independent) Director to join our existing Appointed Director Kathy Meads, and the five Elected Directors on the Board.

Looking forward, we have a cautious outlook for the New Zealand construction industry as the dual pressures of rising construction costs and higher interest rates are expected to impact short to medium term activity levels. While our customers are generally positive about the next few months, the longer-term horizon seems far less certain, so our continued reinvestment in the business to create future opportunity and remain competitive is more important than ever, and we will continue to balance this with prudent cost management.

The board and management thank all of our staff and shareholders for your continued support of the NZPM co-operative.

Kind regards,



John DeBernardo
NZPM Chair

NZPM GROUP LIMITED
***Extract**

 Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
 For the six months ended 30 September 2022

| | Note | Unaudited 6 months to 30 Sept 2022 \$'000 | Unaudited 6 months to 30 Sept 2021 \$'000 | Audited 12 months to 31 Mar 2022 \$'000 |
|--|------|--|--|--|
| Sales revenue | | 169,743 | 144,294 | 305,436 |
| Cost of goods sold | | (119,505) | (101,761) | (214,556) |
| Gross profit | | 50,238 | 42,533 | 90,880 |
| Other operating income | | 164 | 970 | 1,071 |
| Share of results of associates | | 60 | 93 | 47 |
| Administration expenses | | (7,054) | (6,429) | (12,201) |
| Other operating expenses and ERP system transition costs | 2 | (31,294) | (27,904) | (56,043) |
| Earnings before finance costs, dividends and tax | | 12,114 | 9,263 | 23,754 |
| Net finance cost | | (1,320) | (1,337) | (2,692) |
| Rebate dividends and dividends | 3 | (11,321) | (9,240) | (9,648) |
| (Loss)/profit before income tax | | (527) | (1,314) | 11,414 |
| Income tax expense | | (3,210) | (2,227) | (5,937) |
| (Loss)/profit for the period | | (3,737) | (3,541) | 5,477 |
| Other comprehensive income/(loss) for the period | | | | |
| <i>Items that may be classified subsequently to profit and loss:</i> | | | | |
| Gain/(loss) from foreign exchange differences on translation of foreign operations | | 147 | 1 | (2) |
| Other comprehensive gain/(loss) for the period | | 147 | 1 | (2) |
| Total comprehensive (loss)/income for the period | | (3,590) | (3,540) | 5,475 |

***Extract** - this statement has been extracted from the NZPM Group Limited Consolidated Interim Financial Statements for the 6 months ended 30 September 2022. The full report is available at www.nzpm.co.nz/investor-centre.

NZPM GROUP LIMITED

 Consolidated Interim Balance Sheet
 As at 30 September 2022

*Extract

| | Unaudited 30 Sept 2022 \$'000 | Unaudited 30 Sept 2021 \$'000 | Audited 31 Mar 2022 \$'000 |
|--------------------------------------|-------------------------------------|-------------------------------------|----------------------------------|
| Current assets | | | |
| Cash and cash equivalents | 2,083 | 1,365 | 438 |
| Trade and other receivables | 37,619 | 30,544 | 42,602 |
| Right to returned goods asset | 1,341 | 1,007 | 1,249 |
| Derivative financial instruments | 467 | 29 | 266 |
| Inventories | 57,898 | 50,617 | 58,018 |
| Total current assets | 99,408 | 83,562 | 102,573 |
| Non-current assets | | | |
| Property, plant and equipment | 20,285 | 18,108 | 19,213 |
| Intangible assets | 7,971 | 7,885 | 7,962 |
| Investment in associate | 905 | 826 | 698 |
| Right-of-use assets | 40,818 | 43,455 | 41,706 |
| Derivative financial instruments | 0 | 32 | 0 |
| Deferred taxation | 3,888 | 3,072 | 3,550 |
| Total non-current assets | 73,867 | 73,378 | 73,129 |
| Total assets | 173,275 | 156,940 | 175,702 |
| Current liabilities | | | |
| Trade and other payables | 35,473 | 31,836 | 36,595 |
| Refund liability | 1,940 | 1,449 | 1,805 |
| Contract liabilities | 1,874 | 1,839 | 1,639 |
| Derivative financial instruments | 0 | 0 | 101 |
| Provisions | 4,270 | 3,421 | 4,091 |
| Lease liabilities | 6,414 | 6,392 | 6,623 |
| Taxation payable | 2,159 | 1,657 | 4,413 |
| Total current liabilities | 52,130 | 46,594 | 55,267 |
| Non-current liabilities | | | |
| Loans and borrowings | 14,538 | 13,093 | 14,543 |
| Provisions | 856 | 675 | 1,013 |
| Lease liabilities | 38,767 | 40,636 | 39,110 |
| Co-operative share capital | 37,633 | 32,016 | 32,828 |
| Total non-current liabilities | 91,794 | 86,420 | 87,494 |
| Total liabilities | 143,924 | 133,014 | 142,761 |
| Net assets | 29,351 | 23,926 | 32,941 |
| Equity | | | |
| Reserves | 84 | (60) | (63) |
| Retained earnings | 29,267 | 23,986 | 33,004 |
| Total equity | 29,351 | 23,926 | 32,941 |

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NZPM GROUP LIMITED

 Consolidated Interim Statement of Cash Flows
 For the six months ended 30 September 2022

***Extract**

| | Unaudited 6 months to 30 Sept 2022 | Unaudited 6 months to 30 Sept 2021 | Audited 12 months to 30 Mar 2022 |
|---|--|--|--|
| | \$'000 | \$'000 | \$'000 |
| Operating activities | | | |
| Receipts from customers | 170,751 | 149,506 | 301,303 |
| Receipts from 2021 COVID-19 Wage Subsidy & Resurgence Support Payment | 0 | 706 | 718 |
| Rent received | 27 | 58 | 94 |
| Interest received | 38 | 6 | 7 |
| Dividends received from associates | 0 | 0 | 71 |
| Other income | 77 | 61 | 130 |
| Payments to suppliers and employees | (149,325) | (138,977) | (284,921) |
| Payments for ERP system transition costs | (489) | 0 | 0 |
| Income tax paid | (5,801) | (4,505) | (5,937) |
| Interest paid on borrowings | (222) | (138) | (380) |
| Interest paid on lease liabilities | (1,258) | (1,341) | (2,687) |
| Interest received/(paid) on interest rate swaps | 7 | (97) | (100) |
| Dividends paid to shareholders | (10,560) | (8,575) | (8,709) |
| Net cash inflows / (outflows) from operating activities | 3,246 | (3,296) | (411) |
| Investing activities | | | |
| Proceeds from sale of property, plant and equipment | 27 | 0 | 27 |
| Investment in associate | 0 | 0 | (157) |
| Purchase of intangible assets | (134) | (216) | (456) |
| Purchase of property, plant and equipment | (2,202) | (1,332) | (3,552) |
| Net cash outflows from investing activities | (2,309) | (1,548) | (4,138) |
| Financing activities | | | |
| Issue of new shares | 4,905 | 1,663 | 3,163 |
| Proceeds from loans and borrowings | 745 | 7,500 | 9,000 |
| Share redemption payments | (861) | (1,068) | (2,031) |
| Loans and borrowings repayments | (750) | (50) | (100) |
| Lease liability payments | (3,331) | (2,961) | (6,170) |
| Net cash inflows from financing activities | 708 | 5,084 | 3,862 |
| Net cash flows | 1,645 | 240 | (687) |
| Cash and cash equivalents at beginning of year | 438 | 1,125 | 1,125 |
| Cash and cash equivalents at end of period | 2,083 | 1,365 | 438 |

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1. Changes to accounting standards and significant accounting policies

Other than the below, there have been no new significant accounting policies adopted in the period.

Implementation of IFRIC agenda decision and new accounting policy

During the year, NZPM entered into a contract with Capgemini to procure, integrate and configure Microsoft's Dynamics 365 product. NZPM adopted a new accounting policy in relation to upfront configuration and customisation costs incurred in implementing Software-as-a-Service arrangements in line with the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. The new accounting policy is presented below.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing NZPM with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

2. Other operating expenses and ERP system transition costs

| | Unaudited 6 months to 30 Sept 2022 | Unaudited 6 months to 30 Sept 2021 | Audited 12 months to 31 Mar 2022 |
|--|--|--|--|
| | \$'000 | \$'000 | \$'000 |
| <i>Other operating expenses and ERP system transition costs include the following:</i> | | | |
| Employee expense | 24,429 | 22,077 | 44,069 |
| Depreciation and amortisation expense | 4,936 | 4,787 | 9,712 |
| ERP system transition costs | 489 | 0 | 0 |

NZPM has commenced the process of replacing the core business software with Microsoft Dynamics 365. This implementation is expected to take 12 to 18 months and cost an estimated \$8 million including both internal and external costs. NZPM is currently in the Analysis and Design phase with costs incurred to 30 September 2022 of \$489,000. NZPM expects to commit to the next build phase prior to year end.

3. Rebate dividends and dividends

| | Unaudited 6 months to 30 Sept 2022 | Unaudited 6 months to 30 Sept 2021 | Audited 12 months to 31 Mar 2022 |
|---|--|--|--|
| | \$'000 | \$'000 | \$'000 |
| <i>Amounts recognised as distributions to shareholders in the period:</i> | | | |
| Rebate dividends on ordinary shares | 10,829 | 8,870 | 8,870 |
| Dividends on redeemable preference shares | 492 | 370 | 778 |
| Total rebate dividends and dividends | 11,321 | 9,240 | 9,648 |

On 6 July 2022, NZPM declared a final rebate dividend for the year ended 31 March 2022 to all ordinary shareholders that was the greater of \$300 or 8.0% per annum of ordinary shareholder Grade-A cash. The rebate dividend was fully imputed for tax purposes.

4. Capital commitments

Significant capital expenditure of \$5,245,000 was contracted for at the end of the reporting period but not recognised in liabilities (Sept 2021: \$1,682,000 Mar 2022 \$7,105,000). Of this amount \$4.7m relates to the development of the Dury property.