

Connector

News and views from your co-operative



NZPM Interim Report

NZPM Co-operative has started the year well in a challenging market. With sales demand softening, the benefits of our investment in service, people and technology have allowed NZPM to hold onto a strong market position and report revenue and margins in line with the prior comparative period. The impact of inflation on our cost base and the investment in our technology replacement project have combined to lower our earnings before finance costs, dividends and taxation.

The significant financial metrics for the half-year were:

- Consolidated revenue for the six months to 30 September 2023 of \$169.4 million decreased by \$0.3 million (0.2%) from the same period last year.

- Our profit before net financing costs, dividends and taxation (operating earnings) for the six months to September 2023 decreased 53% to \$5.7 million when compared to the same period last year. Just over half of the decline in operating earnings is from the cost of the Microsoft Dynamics 365 ERP system development which increased from \$0.5 million in the prior comparative period to \$3.9 million in this period.
- Operating cash inflow of \$5.2 million included the cash payment of dividends to shareholders of \$7.5 million, and a net cash inflow of \$5.3 million from a decrease in working capital.

During the period, market conditions continued to soften as demand for new housing decreased. With NZPM having more exposure to the completion of residential buildings in the construction process, we continued to see sales gradually soften over the winter months. Our sales to customers who operate in the commercial and maintenance segments remained steady and this helped buffer the business from declines in new residential construction.

We continue to face strong market competition. Our strategy of growing our own brand and exclusive product ranges continues to be successful at combatting the wider downward pressure on pricing. During the period, our shareholders earned Gold Rebates of \$0.3 million, an increase of 6% from the same period last year.

With the dynamics of the employment market becoming more balanced, our strategies to attract and retain a great talent pool of people has helped our staff turnover consistently reduce from the elevated levels of the prior year.

NZPM Interim Report continued

We are now congratulating the first graduates of our Strive Leadership and Emerging Leadership programmes, an NZQA qualification. The graduates have provided some very positive feedback on the opportunity to undertake employer supported professional development. NZPM has begun offering a two-year retail apprenticeship training programme which is now underway.

We continued to advance our technology investment through the project to replace our legacy business system with Microsoft Dynamics 365. The project is firmly focused on providing a technology platform that will help future proof the business, improve our digital connectivity with our customers while also improving our general business process efficiency, information management, automated process controls and communication through workflow tools. During the period we completed the initial build phase and are now in the testing and refinement phase before a planned rollout around the beginning of the new financial year.

The development of our pwGO technology continued with the release of a new feature to allow Simpro customers to send a purchase order directly from Simpro to pwGO. This exciting feature is a great example of the incremental gains that we are making with our technology investment to bring efficiency benefits to our customers and is evidenced by pwGO transactions continuing to increase to now be approximately 10% of our total revenue.

In June, NZPM declared an interim Co-operative Dividend of 5% of Grade-A cash. The dividend was paid in September. Having observed the continued weakening market conditions since that declaration, the Board have resolved not to declare a further dividend for the year to support the Co-operative's balance sheet gearing. The Board remain focused on generating and paying sustainable Co-operative Dividends to our members through the economic cycle.

In May, we opened our 57th Plumbing World branch in Drury, South Auckland, and in July, we completed the relocation of Metrix into a beautifully renovated historical building, still in the heart of Parnell, Auckland. We also advanced the relocation of our Papamoa, Bay of Plenty and Kerikeri branches into new locations. All

our relocations support our customers and staff with larger, modern environments which are much lighter and brighter than the old premises, including generous yards and customer parking. The relocations also further address our policy of operating in buildings that meet minimum seismic standards.

Our co-operative membership continues to grow with 56 new members joining in the six months to September. From our discussions with new members, we continue to receive positive feedback that our value proposition is supported by our service offering, industry connectivity and our financial returns. We continue to measure and track membership retention as a key indicator to understand the value proposition that NZPM offers as a co-operative. One of our important value propositions is the Young Plumber of the Year Competition. We have recently celebrated the great young talent in our industry at the national final and we congratulate Cody Hall from C F Reese Plumbing, in Hamilton, as our 2023 YPOTY National Winner.

At a governance level, the retirement of Mark Whitehead and the election of Joe Calkin and new director, Reuben Cutts at the August Annual Meeting has continued the recent measured change of membership of the Board. As the Chair, I now look forward to a period of stability as the new members come up to speed with the complexities of being a governor of this large, omni-channel logistics business.

Looking forward, we continue to have a cautious outlook for the New Zealand construction industry as the pressures of high interest rates, high inflation and soft market demand are expected to continue for the short to medium term. 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 our staff and shareholders for their continued support of the NZPM Co-operative.

Kind regards,
Kathy Meads
NZPM Chair

NZPM CO-OPERATIVE LIMITED

*Extract

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 September 2023

| | Note | Unaudited 6 months to 30 Sep 2023 \$'000 | Unaudited 6 months to 30 Sep 2022 \$'000 | Audited 12 months to 31 Mar 2023 \$'000 |
|---|------|---|---|--|
| Sales revenue | | 169,414 | 169,743 | 330,843 |
| Cost of goods sold | | (119,615) | (119,505) | (231,972) |
| Gross profit | | 49,799 | 50,238 | 98,871 |
| Other operating income | 1 | 482 | 164 | 675 |
| Share of results of associates | | 51 | 60 | 69 |
| Administration expenses | | (7,308) | (7,054) | (13,903) |
| Other operating expenses and ERP system transition costs | 2 | (37,303) | (31,294) | (64,222) |
| Earnings before finance costs, dividends and tax | | 5,721 | 12,114 | 21,490 |
| Finance income | | 179 | 166 | 234 |
| Finance cost | | (1,982) | (1,486) | (3,298) |
| Co-operative dividends and dividends | 3 | (8,222) | (11,321) | (11,969) |
| (Loss)/profit before income tax | | (4,304) | (527) | 6,457 |
| Income tax expense | | (1,193) | (3,210) | (5,285) |
| (Loss)/profit for the period | | (5,497) | (3,737) | 1,172 |
| Other comprehensive income for the period | | | | |
| <i>Items that may be classified subsequently to profit and loss:</i> | | | | |
| Gain from foreign exchange differences on translation of foreign operations | | 40 | 147 | 73 |
| Other comprehensive gain for the period | | 40 | 147 | 73 |
| Total comprehensive (loss)/income for the period | | (5,457) | (3,590) | 1,245 |

*Extract - this statement has been extracted from the NZPM Co-operative Limited consolidated interim financial statements for the 6 months ended 30 September 2023. The full report is available at nzpm.co.nz/investor-centre.

NZPM CO-OPERATIVE LIMITED

 Consolidated Interim Balance Sheet
 As at 30 September 2023

*Extract

| | | Unaudited 30 Sep 2023 | Unaudited 30 Sep 2022 | Audited 31 Mar 2023 |
|---|---|--------------------------|--------------------------|------------------------|
| | | \$'000 | \$'000 | \$'000 |
| Current assets | | | | |
| Cash and cash equivalents | | 287 | 2,083 | - |
| Trade and other receivables | | 36,975 | 37,619 | 43,912 |
| Right to returned goods asset | | 1,739 | 1,341 | 1,506 |
| Inventories | | 55,062 | 57,898 | 56,971 |
| Derivative financial instruments | | 287 | 467 | 380 |
| Total current assets | | 94,350 | 99,408 | 102,769 |
| Non-current assets | | | | |
| Property, plant and equipment | | 17,504 | 20,285 | 24,824 |
| Intangible assets | | 7,825 | 7,971 | 7,879 |
| Investment in associate | | 899 | 905 | 808 |
| Right-of-use assets | | 44,823 | 40,818 | 44,407 |
| Deferred taxation | | 5,849 | 3,888 | 4,797 |
| Total non-current assets | | 76,900 | 73,867 | 82,715 |
| Non-current asset classified as held for sale | 4 | 10,063 | - | - |
| Total assets | | 181,313 | 173,275 | 185,484 |
| Current liabilities | | | | |
| Bank overdraft | | - | - | 135 |
| Trade and other payables | | 34,774 | 35,473 | 35,296 |
| Refund liability | | 2,482 | 1,940 | 2,173 |
| Contract liabilities | | 2,097 | 1,874 | 1,742 |
| Provisions | | 4,241 | 4,270 | 4,837 |
| Lease liabilities | | 6,664 | 6,414 | 6,626 |
| Taxation payable | | 24 | 2,159 | 3,043 |
| Total current liabilities | | 50,282 | 52,130 | 53,852 |
| Non-current liabilities | | | | |
| Loans and borrowings | | 17,583 | 14,538 | 14,076 |
| Provisions | | 1,292 | 856 | 1,109 |
| Lease liabilities | | 43,372 | 38,767 | 42,567 |
| Co-operative share capital | | 40,055 | 37,633 | 39,694 |
| Total non-current liabilities | | 102,302 | 91,794 | 97,446 |
| Total liabilities | | 152,584 | 143,924 | 151,298 |
| Net assets | | 28,729 | 29,351 | 34,186 |
| Equity | | | | |
| Reserves | | 50 | 84 | 10 |
| Retained earnings | | 28,679 | 29,267 | 34,176 |
| Total equity | | 28,729 | 29,351 | 34,186 |

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NZPM CO-OPERATIVE LIMITED

Consolidated Interim Statement of Cash Flows
For the six months ended 30 September 2023

*Extract

| | Unaudited 6 months to 30 Sep 2023 | Unaudited 6 months to 30 Sep 2022 | Audited 12 months to 31 Mar 2023 |
|--|---|---|--|
| | \$'000 | \$'000 | \$'000 |
| Operating activities: | | | |
| Receipts from customers | 172,561 | 170,751 | 330,323 |
| Receipts from Insurance Claim | 393 | - | 195 |
| Rent received | 32 | 27 | 59 |
| Interest received | 83 | 38 | 65 |
| Interest received on interest rate swaps | 96 | 7 | 92 |
| Dividends received from associates | - | - | 32 |
| Other income | 46 | 77 | 479 |
| Payments to suppliers and employees | (153,384) | (149,814) | (300,732) |
| Income tax paid | (5,264) | (5,801) | (7,902) |
| Interest paid on borrowings | (530) | (222) | (675) |
| Interest paid on lease liabilities | (1,428) | (1,258) | (2,623) |
| Dividends paid to shareholders | (7,455) | (10,560) | (10,815) |
| Net cash inflows from operating activities | 5,150 | 3,245 | 8,498 |
| Investing activities: | | | |
| Proceeds from sale of property, plant and equipment | 42 | 27 | 33 |
| Purchase of intangible assets | (113) | (134) | (274) |
| Purchase of property, plant and equipment | (4,346) | (2,202) | (7,363) |
| Net cash outflows from investing activities | (4,417) | (2,309) | (7,604) |
| Financing activities: | | | |
| Issue of new shares | 1,455 | 4,905 | 7,807 |
| Proceeds from loans and borrowings | 3,507 | 745 | 2,633 |
| Share redemption payments | (1,861) | (861) | (2,095) |
| Loans and borrowings repayments | - | (750) | (3,100) |
| Lease liability payments | (3,412) | (3,331) | (6,712) |
| Net cash (outflows) / inflows from financing activities | (311) | 708 | (1,467) |
| Net increase / (decrease) in cash and cash equivalents | 422 | 1,645 | (573) |
| Cash and cash equivalents at beginning of year | (135) | 438 | 438 |
| Cash and cash equivalents at end of period | 287 | 2,083 | (135) |

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1. Other operating income

| | Unaudited 6 months to 30 Sep 2023 | Unaudited 6 months to 30 Sep 2022 | Audited 12 months to 31 Mar 2023 |
|-------------------------------|---|---|--|
| | \$'000 | \$'000 | \$'000 |
| Operating rental income | 32 | 27 | 59 |
| Insurance proceeds | 393 | - | 195 |
| License of pwGO application | - | - | 332 |
| Other | 57 | 137 | 89 |
| Total operating income | 482 | 164 | 675 |

2. Other operating expenses and ERP system transition costs

| | Unaudited 6 months to 30 Sep 2023 | Unaudited 6 months to 30 Sep 2022 | Audited 12 months to 31 Mar 2023 |
|--|---|---|--|
| | \$'000 | \$'000 | \$'000 |
| <i>Other operating expenses and ERP system transition costs include the following:</i> | | | |
| Employee expense | 24,967 | 24,429 | 48,832 |
| Employee expense incurred for the ERP system transition | 848 | 160 | 518 |
| ERP system transition costs (excluding internal wages and salaries) | 3,045 | 329 | 1,719 |
| Depreciation and amortisation expense | 5,239 | 4,936 | 10,025 |

NZPM has commenced the process of replacing its current technology platform with Microsoft Dynamics 365. The implementation is expected to take a further 8 months and cost a further estimated \$6.7 million including both internal and external costs. The design and build phases of this project are substantially complete and testing has commenced on the system.

3. Co-operative dividends and dividends

| | Unaudited 6 months to 30 Sep 2023 | Unaudited 6 months to 30 Sep 2022 | Audited 12 months to 31 Mar 2023 |
|---|---|---|--|
| | \$'000 | \$'000 | \$'000 |
| <i>Amounts recognised as distributions to shareholders in the period:</i> | | | |
| Dividends on redeemable preference shares | 721 | 492 | 1,140 |
| Co-operative dividends on ordinary shares | 7,501 | 10,829 | 10,829 |
| Total co-operative dividends and dividends | 8,222 | 11,321 | 11,969 |

On 29 June 2023, NZPM declared an interim co-operative dividend for the year ended 31 March 2023 to all ordinary shareholders that was the greater of \$300 or 5.0% per annum of ordinary shareholder Grade-A cash. The co-operative dividend was paid in cash on 26 September 2023 to all ordinary shareholders on the share register as at the date of payment who were not in default of their monthly obligations. The co-operative dividend was fully imputed for tax purposes.

In November 2023, the Board resolved not to pay a further and final dividend for the year ended 31 March 2023.

4. Non-Current asset held for sale

In 2021, NZPM purchased land in Drury, Auckland and developed the property by constructing two separate buildings to establish a new branch for Plumbing World and a separate warehouse. As at 30 September 2023, these properties are classified as Non-Current Assets Held for Sale.

On 5 July 2023, the Group entered into an unconditional sale and purchase agreement to sell the property that is tenanted by Plumbing World Limited. The agreement is expected to settle in December 2023. Plumbing World will continue to lease back this property from the buyer for an initial lease term of 12 years.

The separate warehouse is expected to be sold or tenanted by a third party, with the view to then sell the property to an investor.