

# Connector

News and views from your co-operative

## **NZPM Co-operative Financial Review**

*for the six months ending 30 September 2024*



*Kathy Meads, NZPM Chair*

**The first half of the 2024 financial year has been marked by a challenging market landscape, yet NZPM Co-operative has continued to focus on maintaining its strong position through continuing to support our customer service model.**

The Co-operative has experienced a decrease in both revenue and operating profits, reflecting the broader market pressures, increased costs, and ongoing investments in strategic projects including Microsoft Dynamics 365, pwGO and branch redevelopments to support future growth.

Our 60 Year Anniversary celebrations have been a particular highlight and are a good reminder of the fellowship and camaraderie that being an active member of a co-operative brings to us all.

### **Financial Performance Overview**

For the six months ending 30 September 2024, NZPM reported the following key financial metrics:

- Consolidated revenue for the period was \$159.5 million, a decline of 6% compared to \$169.4 million for the same period in 2023. This decrease in revenue is reflective of the

softening demand within the new residential construction market, a trend influenced by ongoing high interest rates and reduced consumer spending within the housing sector.

- Earnings before finance costs, dividends, and taxes of \$2.4 million were down significantly from \$5.7 million in the previous period. Both periods incurred \$3.9m of costs attributable to the technology upgrade to the Microsoft Dynamics 365 ERP system.
- The Co-operative generated an operating net cash inflow of \$4.4 million after paying dividend payments to shareholders amounting to \$4.6 million. Working capital adjustments, including a modest decrease in receivables and inventory levels, positively impacted cash flows, demonstrating effective cash management in a challenging market.

### **Market Conditions and Business Strategy**

Overall demand has continued to decline from lower residential construction market activity and the direct and indirect impact of government spending. However, NZPM has succeeded in maintaining stable sales within the commercial and maintenance segments, thereby partially mitigating the impact of reduced new home construction. While specific market data is not freely available, our understanding from a range of sources is that our revenue reduction of 6% is below the general market decline and that the Co-operative continues to hold a steady market position, albeit in a shrinking market.

The Co-operative's strategic emphasis on expanding its own brands and exclusive product ranges has been effective, enabling NZPM to largely withstand pricing pressures in a highly competitive market which provides our customers with great products at competitive prices. We have a number of new products under development for both our LeVivi, Sessanta and Tiva ranges to support this initiative.

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## **NZPM Co-operative Financial Review cont.**

**for the six months ending 30 September 2024**

As our shareholders would expect, we have been actively managing down a range of operating costs, however, the extent of the revenue reduction meant that our overall level of earnings continued to decline. We are continuing to take actions to further lower our costs, however, we are also very aware of the importance of managing our customer service levels particularly as we are about to transition to the new ERP system.

During the period, our teams had a strong focus on the final testing and adjustments to our ERP project and pwGO system enhancements. The final stages of the project have progressed to plan with the pilot expected in late November and a wider branch rollout over the Christmas and New Year period. This project has taken a phenomenal effort from the team due to some reasonably unique complexities in our business including pricing and product flows. While we expect there to be a settling in period during 2025, we are now positioning ourselves to use the new insights to better support our future state and plan to leverage some of the benefits as quickly as we can do so.

### **Shareholders**

In September, NZPM paid a Co-operative Dividend of 3% of Grade-A cash. In monitoring the weak market conditions and understanding the current level of operating earnings, the Board is taking a cautious outlook for the coming year due to our lower level of earnings while remaining focused on providing great customer service and generating sustainable outcomes through the economic cycle.

Notwithstanding the overall market weakness, we were pleased to welcome 32 new shareholder members to NZPM for the six months to 30 September. Our teams continue to engage with potential new shareholders to offer the benefits of being a member of your co-operative.

### **Funding**

During the period, NZPM's net debt position increased by \$1.8 million to \$14.0 million while extending our bank facilities with Westpac

through to December 2026. The increase in debt incorporated some net reductions in working capital which were largely in line with lower activity levels and funded the payment of our annual Co-operative Dividend to ordinary shareholders of \$4.5 million. We continue to carefully manage our overall working capital position including customer collections and inventory management. The Co-operative remains focused on prudent debt management to ensure adequate liquidity and maintain financial stability while advancing our strategic initiatives.

### **Future Outlook**

Looking forward, NZPM maintains a cautious outlook, anticipating that the weak employment market, low net immigration, the lag effect of declining interest rates and high building costs may continue to present challenges for the New Zealand construction industry. Despite these headwinds, the Co-operative remains committed to a strong customer service model and prudent cost management so that we can support our customers while advancing our reinvestment strategies to secure long-term growth.

### **Acknowledgment**

The board and management extend their appreciation to all staff and shareholders for their commitment and support during this period. NZPM remains committed to its co-operative values and to delivering sustainable value to its members through the economic cycle.

Kind regards,



Kathy Meads  
NZPM Chair

## NZPM CO-OPERATIVE LIMITED

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income  
For the six months ended 30 September 2024

**\*Extract**

		Unaudited 6 months to 30 Sep 2024	Unaudited 6 months to 30 Sep 2023	Audited 12 months to 31 Mar 2024
	Notes	\$'000	\$'000	\$'000
Sales revenue		159,455	169,414	320,969
Cost of goods sold		(112,869)	(119,615)	(225,298)
<b>Gross profit</b>		<b>46,586</b>	<b>49,799</b>	<b>95,671</b>
Other operating income	1	271	482	651
Share of results of associates		(126)	51	58
Administration expenses		(6,989)	(7,308)	(13,726)
Other operating expenses and ERP system transition costs	2	(37,295)	(37,303)	(73,759)
<b>Earnings before finance costs, dividends and tax</b>		<b>2,447</b>	<b>5,721</b>	<b>8,895</b>
Finance income		97	179	298
Finance cost		(2,146)	(1,982)	(4,382)
Co-operative dividends and redeemable preference share dividends	3	(5,231)	(8,222)	(8,990)
<b>Loss before income tax</b>		<b>(4,833)</b>	<b>(4,304)</b>	<b>(4,179)</b>
Income tax expense		(171)	(1,193)	(2,199)
<b>Loss for the period</b>		<b>(5,004)</b>	<b>(5,497)</b>	<b>(6,378)</b>
<b>Other comprehensive income for the period</b>				
<b>Items that may be classified subsequently to profit and loss:</b>				
(Loss) / Gain from foreign exchange differences on translation of foreign operations		(10)	40	36
<b>Other comprehensive (loss) / gain for the period</b>		<b>(10)</b>	<b>40</b>	<b>36</b>
<b>Total comprehensive loss for the period</b>		<b>(5,014)</b>	<b>(5,457)</b>	<b>(6,342)</b>

**\* Extract** - this statement has been extracted from the NZPM Co-operative Limited consolidated interim financial statements for the 6 months ended 30 September 2024. The full report is available at [nzpm.co.nz/investor-centre](http://nzpm.co.nz/investor-centre).

**NZPM CO-OPERATIVE LIMITED**

Consolidated Interim Balance Sheet

As at 30 September 2024

**\*Extract**

	Notes	Unaudited 30 Sep 2024 \$'000	Unaudited 30 Sep 2023 \$'000	Audited 31 Mar 2024 \$'000
<b>Current assets</b>				
Cash and cash equivalents		674	287	977
Trade and other receivables		32,827	36,975	38,775
Right to returned goods asset		1,362	1,739	1,504
Inventories		53,137	55,062	54,490
Derivative financial instruments		22	287	149
<b>Total current assets</b>		<b>88,022</b>	<b>94,350</b>	<b>95,895</b>
<b>Non-current assets</b>				
Property, plant and equipment		16,498	17,504	17,323
Intangible assets		8,126	7,825	7,898
Investment in associate		717	899	853
Right-of-use assets		49,985	44,823	47,961
Deferred taxation		7,691	5,849	6,530
<b>Total non-current assets</b>		<b>83,017</b>	<b>76,900</b>	<b>80,565</b>
Non-current asset classified as held for sale		-	10,063	-
<b>Total assets</b>		<b>171,039</b>	<b>181,313</b>	<b>176,460</b>
<b>Current liabilities</b>				
Trade and other payables		29,828	34,774	32,230
Refund liability		1,948	2,482	2,155
Contract liabilities		1,981	2,097	1,690
Provisions		4,542	4,241	4,912
Lease and license liabilities		8,278	6,664	7,519
Taxation payable		251	24	1,013
Derivative financial instruments		203	-	-
<b>Total current liabilities</b>		<b>47,031</b>	<b>50,282</b>	<b>49,519</b>
<b>Non-current liabilities</b>				
Loans and borrowings		14,700	17,583	13,200
Provisions		812	1,292	980
Lease and license liabilities		47,181	43,372	45,912
Co-operative share capital		38,485	40,055	39,005
<b>Total non-current liabilities</b>		<b>101,178</b>	<b>102,302</b>	<b>99,097</b>
<b>Total liabilities</b>		<b>148,209</b>	<b>152,584</b>	<b>148,616</b>
<b>Net assets</b>		<b>22,830</b>	<b>28,729</b>	<b>27,844</b>
<b>Equity</b>				
Reserves		36	50	46
Retained earnings		22,794	28,679	27,798
<b>Total equity</b>		<b>22,830</b>	<b>28,729</b>	<b>27,844</b>

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**NZPM CO-OPERATIVE LIMITED**

Consolidated Interim Statement of Cash Flows  
For the six months ended 30 September 2024

**\*Extract**

	Notes	Unaudited 6 months to 30 Sep 2024 \$'000	Unaudited 6 months to 30 Sep 2023 \$'000	Audited 12 months to 31 Mar 2024 \$'000
<b>Operating activities:</b>				
Receipts from customers		160,228	172,561	326,422
Receipts from insurance claim		-	393	392
Interest received		20	83	99
Interest received on interest rate swaps		77	96	178
Dividends received from associates		165	-	49
Other income		106	78	193
Payments to suppliers and employees		(147,503)	(153,384)	(303,268)
Income tax paid		(2,094)	(5,264)	(5,962)
Interest paid on borrowings		(388)	(530)	(1,176)
Interest paid on lease and license liabilities		(1,584)	(1,428)	(2,975)
Dividends paid to shareholders		(4,610)	(7,455)	(7,716)
<b>Net cash inflows from operating activities</b>		<b>4,417</b>	<b>5,150</b>	<b>6,236</b>
<b>Investing activities:</b>				
Proceeds from sale of property, plant and equipment		21	42	10,610
Investment in associate		(127)	-	-
Purchase of intangible assets		(388)	(113)	(363)
Purchase of property, plant and equipment		(394)	(4,346)	(5,579)
<b>Net cash (outflows) / inflows from investing activities</b>		<b>(888)</b>	<b>(4,417)</b>	<b>4,668</b>
<b>Financing activities:</b>				
Issue of new shares		1,221	1,455	2,574
Proceeds from loans and borrowings		1,500	3,507	4,965
Interest rate swap settlement		-	-	21
Share payments		(2,362)	(1,861)	(4,537)
Loans and borrowings repayments		-	-	(5,841)
Lease and license liability payments		(4,191)	(3,412)	(6,974)
<b>Net cash outflows from financing activities</b>		<b>(3,832)</b>	<b>(312)</b>	<b>(9,792)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(303)</b>	<b>422</b>	<b>1,112</b>
Cash and cash equivalents at beginning of year		977	(135)	(135)
<b>Cash and cash equivalents at end of period</b>		<b>674</b>	<b>287</b>	<b>977</b>

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## 1. OTHER OPERATING INCOME

	Unaudited 6 months to 30 Sep 2024	Unaudited 6 months to 30 Sep 2023	Audited 12 months to 31 Mar 2024
	\$'000	\$'000	\$'000
Insurance proceeds	-	393	392
Other	271	89	259
<b>Total operating income</b>	<b>271</b>	<b>482</b>	<b>651</b>

## 2. OTHER OPERATING EXPENSES AND ERP SYSTEM TRANSITION COSTS

	Unaudited 6 months to 30 Sep 2024	Unaudited 6 months to 30 Sep 2023	Audited 12 months to 31 Mar 2024
	\$'000	\$'000	\$'000
<i>Other operating expenses and ERP system transition costs include the following:</i>			
Employee expense	25,830	24,967	51,560
Employee expense incurred for the ERP system transition	1,343	848	2,232
ERP system transition costs (excluding internal wages and salaries)	2,540	3,045	6,159
Depreciation and amortisation expense	5,615	5,239	10,688

During the period, NZPM continued the ongoing process of replacing its current technology platform with Microsoft Dynamics 365. The implementation is expected to be completed in the final quarter of the 2025 financial year.

## 3. CO-OPERATIVE DIVIDENDS AND REDEEMABLE PREFERENCE SHARE DIVIDENDS

	Unaudited 6 months to 30 Sep 2024	Unaudited 6 months to 30 Sep 2023	Audited 12 months to 31 Mar 2024
	\$'000	\$'000	\$'000
<i>Amounts recognised as distributions to shareholders in the period:</i>			
Dividends on redeemable preference shares	745	721	1,489
Co-operative dividends on ordinary shares	4,486	7,501	7,501
<b>Total co-operative dividends and dividends</b>	<b>5,231</b>	<b>8,222</b>	<b>8,990</b>

On 26 June 2024, NZPM declared an interim co-operative dividend for the year ended 31 March 2024 to all ordinary shareholders that was the greater of \$300 or 3.0% per annum of ordinary shareholder Grade-A cash. The co-operative dividend was paid in cash on 24 September 2024 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.