

THE CONNECTOR

CHAIRMAN'S UPDATE

In November, the Directors were pleased to welcome Kathy Meads to the NZPM Group Board as an Appointed Director. Kathy is a professional director based in Christchurch and brings a wealth of experience and skills from the finance and technology sectors to the co-operative. In addition to chairing the board's Audit & Risk Committee, we're sure Kathy will also contribute strongly to the significant developments we're making to our digital and technology capability over the next period of time. Kathy's full profile can be viewed on our website: www.nzpm.co.nz

At the end of November, we also published a special edition of Connector with our results for the first six months of the financial year, and it was pleasing to report the highest interim profit from our plumbing business in the company's history. This is a significant achievement for the co-operative and was driven by an 10% growth in consolidated revenue, together with a 27% increase in earnings before financing costs, dividends, rebate dividends and taxation, both from the comparative period last year.

The increase in sales was driven by strong demand from the wider construction sector, the ongoing support of our customer base, and our staff continuing to improve our service offering. Likewise, the lift in earnings was helped by the ongoing improvements we are making in our operations, and the increased market appeal of Plumbing World's own brand and exclusive ranges.

During November we also carried out our annual strategic planning session, and looking ahead to the second half of the year, we realistically don't expect to see the same high levels of growth due to a number of constraints. Clearly, many of our customers and members are already experiencing labour shortages that are stifling their own potential to expand, and this in turn will impose a natural damper on our sales growth. At the same time, the co-operative is making significant investments in the development and implementation of new digital technologies which will put downward pressure on our earnings, however this programme of investment is undoubtedly important for our future growth and success.

Early in the new year we'll take ownership of our new Kingsland (Auckland) branch site in New North Road, and fit-out as a Plumbing World branch will commence later in 2019 when the existing lessee's term is complete. After several years search for a suitable location in the city to replace Grey Lynn branch, this is an important strategic site acquisition for the co-operative that will now allow us to develop and implement an even more efficient service model in the increasingly congested Auckland metro area.

Finally, as this is our final Connector for 2018, I'd like to acknowledge my fellow directors for their support during the year, and also to thank all of the people in our NZPM, Metrix and Plumbing World businesses who contribute to the success of this great co-operative. Likewise, I'd also like to thank our shareholder members who understand the real ethos and value of belonging to a co-operative company, and who support us day in and day out with their business.

On behalf of the NZPM board I wish you and your families a safe and enjoyable Christmas and New Year.

Kind regards,



John DeBernardo



A MESSAGE FROM PLUMBING WORLD'S GENERAL MANAGER

Another year has absolutely flown by and it's really pleasing to reflect back and see some of the excellent progress we have made at Plumbing World which is all designed to create value for our NZPM shareholders.

- We have seen a significant increase in revenues as new customers have come on board and our share of wallet with existing customers has increased.
- We now have over 1200 people in the Young Plumbers Club which bodes well for the future.
- We have opened two new stores in the past 12 months, one in Richmond (just out of Nelson) and one in Papamoa (south of Mount Maunganui).
- We have two branches in the pipeline; Cromwell which will open in the New Year and Kumeu which will open mid-2019.
- Construction of the new Plumbing World / Metrix distribution centre in Wiri to support the growth of our imports programme is currently ahead of schedule and we should move in mid-2019.
- Our various technology projects are progressing well and we plan on having the mobile device purchasing app ready to launch around May 2019.
- We have nearly 200 people signed up already for Beijing and believe the final group size will be around 250.

Thank you for your support of Plumbing World during 2018 – it has been very much appreciated and helps make your co-operative all the stronger.

On behalf of Plumbing World – Your Team in Black – I would like to wish you and your families a wonderful, enjoyable and safe Christmas and holiday break.

Regards,



Rob Kidd



SHOW YOUR SUPPORT USING MAXPOINTS

As mentioned in our previous issue, our co-operative has chosen to support three cancer charities over the next two years: Bowel Cancer NZ, NZ Gynaecological Cancer Foundation (NZGCF) and Prostate Cancer Foundation NZ.

The majority of us have indirectly or directly—or will be—affected by one of these three cancers in our lifetime. Between bowel, prostate and gynaecological cancer, an average of 7,000 New Zealanders are diagnosed per year – of that 7,000, nearly 20% may not survive. The importance of raising awareness, educating and supporting the community is becoming more and more important as these statistics continue to rise.

We have now made it easier for you to donate to any of these three charities using your MaxPoints. Simply go to the donations page on the MaxPoints website and enter the amount of MaxPoints you wish to donate – it's as easy as that.

This Christmas, please show your support for these three charities by making a small donation. Together – we can make a difference and help save lives.



Bowel Cancer
NEW ZEALAND



New Zealand
Gynaecological Cancer
Foundation*



Prostate Cancer
Foundation
of New Zealand

DIRECTOR'S POINT OF VIEW

I recently had the privilege and pleasure of having lunch with Peter Moore, his wife Shirley, family members, Penny Ratcliff and Jeff Abbott (Plumbing World Managers) and Brett Cruickshank, our CFO, to recognise the loyalty of a local shareholder who has been trading with Plumbing World for 50 years. How things have changed within our industry and our co-operative in that time!

Peter who is in his mid-70s, still does the occasional job because he loves helping people, enjoys their company and likes to keep his hand in. While he is happy to get paid, he also barterers with friends employing the mantra of "a job for a jug of beer". This is a bit different to the world most of us work in.

Peter has always been very interested in what is happening within NZPM and it was a great opportunity to bring him up to date with a variety of our achievements this year...

- Purchase of the Papanui Branch
- Extending the branch network to 50 Branches when Cromwell opens in January
- Adding 50 new ordinary shareholders since March
- Excellent half-year financial result to the 30th September 2018
- Board commitment to invest in technology that will improve many aspects of the business and connectivity with our customers

Long term shareholders like Peter have seen a huge change over their time with the co-operative in how they did business. It's hard to imagine what doing business in another 50 years will look like. I'm sure the investment we make over the next few years will give us a great foundation to build from. Exciting times ahead!!

It may see the end of an era for a "a job for a jug".

Wishing you all a Merry Christmas and a Prosperous New Year.

Best regards,
Mark Whitehead



CHANGE TO LEASE ACCOUNTING

The accounting rules for the treatment of leases have undergone a significant change which will have a large impact on NZPM's financial statements from April 2019.

Currently, NZPM's lease expense for property and vehicles generally aligns to our cash payments which will amount to \$8.5 million this financial year. All future commitments for lease payments are treated as an off-balance sheet commitment and are separately disclosed in our annual report.

Looking forward, the new lease accounting standard (NZ IFRS 16) will require NZPM to record the total amount of our future lease payments (discounted to today's value) as a Right of Use asset with an initially equal and offsetting Future Lease Payments liability.

Given that NZPM has over 50 property leases with rights of renewal of up to 20 years and 140 vehicles, the impact on our balance sheet will be very large in relation to our current balance sheet.

The accounting standard also has a significant impact on our measurement of earnings. The lease expense will be replaced by an amortisations expense (of the right to use asset) and a funding cost for the liability. Not only will the expenses be split into different areas of earnings, but near-term expenses will increase through the funding cost (interest expense) attributed to the Future Lease Payments Liability being higher in the earlier years of the lease.

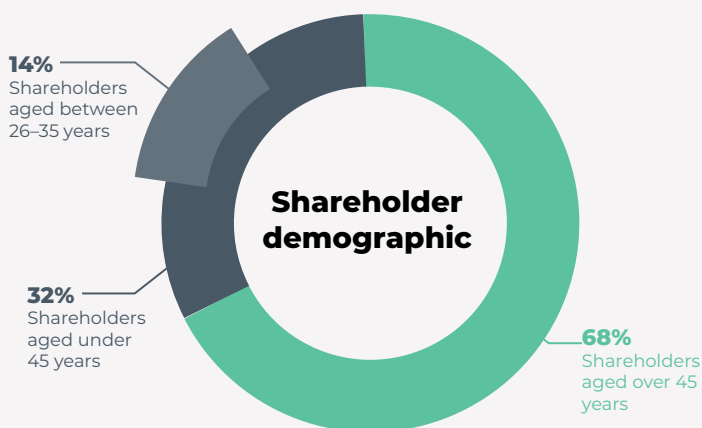
We are currently working through the initial calculations and complex variables that accompany the new standard and expect to be able to update shareholders in the coming months about the impacts on NZPM. The significant changes will require us to amend our banking covenants, reconsider our rebate dividend policy to take these non-cash changes in future reported earnings into account.

Brett Cruickshank
NZPM Group Chief Financial Officer

TRADE SURVEY SUMMARY

Many thanks to all those shareholders who took the time to complete our biennial trade survey a couple of months ago. Your valuable feedback allows us to create initiatives and make changes for your businesses benefit. We were very pleased with the 2018 results and would now like to share with you the highlights:

- 59% of shareholders purchase over 90% of their plumbing supplies from Plumbing World (this has increased from 40% in 2016)
- 85% of shareholders are very satisfied or satisfied with Plumbing World, this has increased from 75% in 2016.
- Top priorities for shareholders are:
 - Key products always being available
 - Staff providing timely and efficient service
 - Competitive prices
 - Staff with industry knowledge/expertise
- 78% said NZPM and Plumbing World are meeting their expectations, significant improvement from 59% in 2016.
- Main areas for NZPM/Plumbing World to work on or change is:
 - Technology platforms to enhance service to shareholders
 - Investing in more special trade offers
 - Increasing stock/trade staff in the branches
 - Grow the branch network
 - Improve our delivery service
- 79% of shareholders are happy with NZPM's policy to retain 20% of its net profit after tax for ongoing investment in the business.
 - 16% thought it was a bit high
 - 4% thought it was a bit low
- 74% place high/very high value on being a shareholder – great improvement from our 54% result in 2016.



Thank you again to all those who responded and this survey will be conducted again in 2020.

Save the date.

NZPM Group Limited's 55th Annual General Meeting will be held in Wellington on 16th August 2019. Planning is underway and more information will be sent out in due course.

METRIX APP

Many NZPM shareholders and their staff have downloaded our new Metrix App. The feedback has been excellent, especially on how easy it is to navigate, and how useful it is.

Between now and Christmas anyone who downloads the app will go in the draw to win a \$500 Prezzy® Card*!

To register for the Metrix app search "Metrix New Zealand" on the iPhone App Store or Android Google Play, fill out the online form and you will be away laughing.

Save time and money by having key information on your NZPM brands immediately available!

*Entries close 31/12/2018. Conditions apply.



METRIX UPDATE

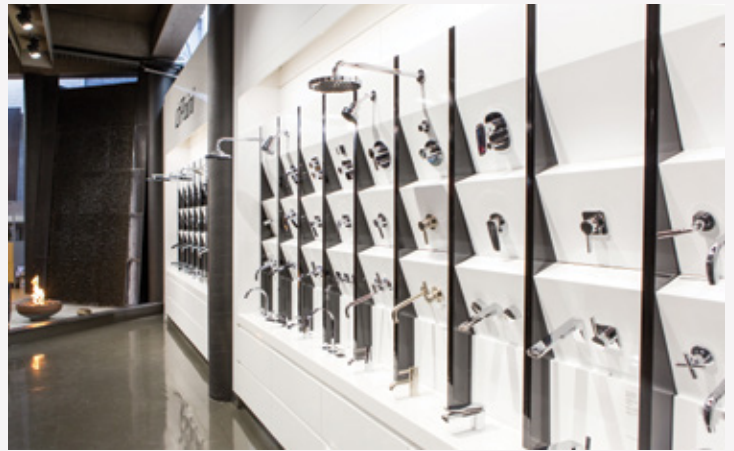
The 800 square metre Metrix architecturally designed showroom is full of displays of mostly European branded front of wall bathroomware.

Our major brands are all represented – Duravit basins, toilets, baths and furniture; Dornbracht tapware from Germany; Vola tapware from Denmark; Kaldewei baths and basins from Germany; Paini tapware from Italy; Valsir inwall cisterns from Italy; Glass Design basins from Italy; plus several other brands.

Architects and interior designers use our showroom and our expertise to turn their plans and their clients' dreams into a reality.

NZPM shareholders can utilise this resource as well. Any shareholders anywhere in New Zealand, who have clients building or renovating a large house, can introduce them to Metrix, and we will look after the specification and product selection. We will also reward the shareholder for introducing their client to us. All it takes is an initial conversation and some fundamental rules of engagement that need to be agreed up front, and from there we can work together for you and your client.

If you have an opportunity please phone Garry Ivill, General Manager of Metrix, on 021 494949 to discuss how we can help.



**5%
GOLD
QUARTERLY TRADING
REBATE**



REMINDER!

From 1st October to 31st December 2018 you will receive a 5% Quarterly Trading Rebate on these Metrix brands:

Paini   *valsir*
ALMAR design
KALDEWEI  **marblo** **SILFRA**

That's over double the usual 2% rebate paid. Thank you for your ongoing support!

If you would like a Metrix person to help you with our products send an email to garry@metrix.co.nz and we will be more than happy to arrange a visit.

*Offer exclusive to NZPM Shareholders. Account must be paid current each month to receive this rebate payment. 5% rebate not applicable on large commercial projects. 2% Gold rebate still applicable on all Toto, LeVivi, Pipe King and MCD Copper during this period.

Join us and discover the imperial city of Beijing at
Plumbing World's 2020 Overseas Convention

WONDERS OF BEIJING 2020

22ND—27TH MAY 2020



For more information and to register for this incredible Plumbing World Overseas Convention, speak to your local branch manager, or email Michelle on michelle.bingham@plumbingworld.co.nz

SHAREHOLDER LOYALTY

Congratulations to these—and all other shareholders that have recently hit milestones.



50 years - Left Photo: Peter and Shirley Moore, P G Moore
 Right Photo: (from left to right) Brett Cruickshank, Jeff Abbott, Peter and Shirley Moore, Mark Whitehead



30 years - Ross and Vicky Ward, Waimak Plumbing
 (Left to right): Cheryl & Neville Hansen, Ross & Vicky Ward



10 years - Andy Delaney
 Delaney Plumbing



10 years - Gary & Theresa Palmer
 G & T Plumbing



We love celebrating your loyalty to our company and it's great to see so many shareholders being acknowledged.

From time to time we may miss a recognition due to the way things were done back in the day so if you think you should have received a recognition for 10, 20, 30, 40 or 50 years then please email: dianne.wilde@plumbingworld.co.nz with the name and date you joined as a shareholder, and we can check for you.

LE·VIVI

New Range

LeVivi has now added a Basin Mixer, Shower Mixer, Slide Shower and Sink Mixer to the range along with round or square Rain Head Showers which can be wall or ceiling mounted.

All products are now available. Speak to your local Plumbing World team for more information.



Merry Christmas

From us all at NZPM, Plumbing World and Metrix we
wish you and your family a safe and happy Christmas.

We look forward to working with you in 2019.

NZPM
GROUP

plumbingworld

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PURPOSE

To contribute to our members' and customers' business success by
representing their interests and delivering performance excellence.

PART OF THE NZPM CO-OPERATIVE

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