

METHVEN

ANNUAL REPORT





Chairman, Phil Lough

# DIRECTORS' REPORT

METHVEN GROUP HAS DELIVERED A HIGHLY CREDITABLE RESULT FOR THE YEAR ENDED 31 MARCH 2009 MAINTAINING BOTTOM LINE PROFIT GROWTH WHILE ALSO REDUCING BANK DEBT DESPITE THE INCREDIBLY DIFFICULT TRADING CLIMATE.

The pleasing 2008-09 Group result demonstrates the effectiveness of Methven's global expansion strategy which seeks to spread revenue sources across diverse international markets, product ranges and price points.

The result also reflects Methven's inherent competitive strengths as a design, innovation and customer led company. We have a dedicated focus on delivering unique, luxury showering experiences. Methven can turn a home shower into a home spa with its latest proprietary technology, Methven Shower Infusions, retrofit a hotel room with an energy and water efficient Satinjet® shower or provide a suite of complementary bathroomware to suit an individual's taste and pocket.

Importantly, in the year under review, Methven Group not only maintained its record of continuous growth but also successfully reduced its debt to \$26.8 million from \$32.6 million. Potential for further debt reductions leaves Methven well positioned to withstand the expected continued economic uncertainties.

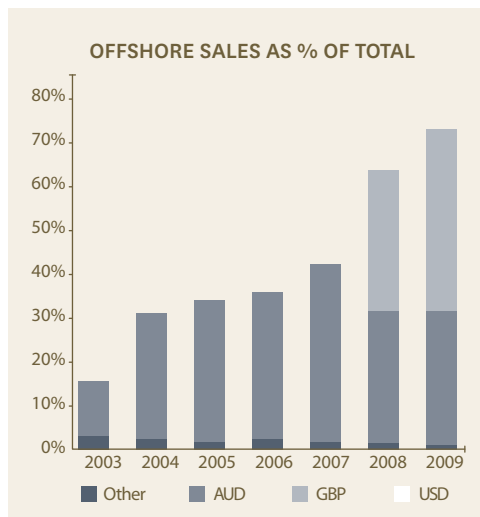
## FINANCIAL PERFORMANCE

After a challenging second half, the year to 31 March 2009 ended with NPAT up 3.1% from \$9.8 million to \$10.1 million (including one-off UK tax credits of \$636,000), in line with market guidance.

Group Operating Revenue increased by 19.7% over the prior year from \$114.8 million to \$137.3 million, with EBITDA up 4.4% from \$18.9 million to \$19.8 million.

This reflected the full year contribution of Deva Tap Company in the UK, which produced an outstanding result given the trading climate in one of the markets worst affected by recession.

As expected, New Zealand sales contracted, reflecting the slump in building permits issued over the period. However, Methven succeeded in increasing domestic market share, particularly in the renovation segment,



modifying the offering to better cater for consumers' changing circumstances with a wider range of choices and price points.

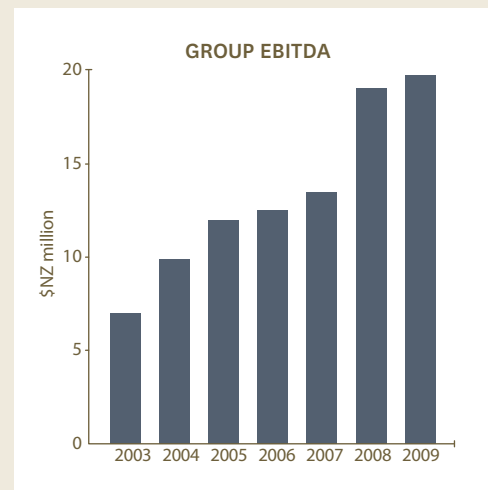
After good growth in Satinjet® showers and tapware in the first half, the second half downturn in the Australian market meant that we did not generate the contribution targeted to cover the additional expenditure in the sales and marketing area.

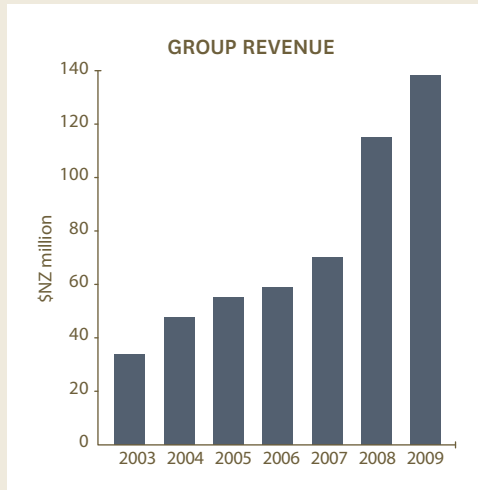
Methven has cut its losses from its startup venture in the United States market, now servicing the customer and distribution base from New Zealand.

The Group benefited from lower brass and copper prices, tightened operating cost management, reduced capital expenditure and Deva's global sourcing expertise in cost-effective product sourcing.

The Group produced solid operating cash flows which enabled debt to be reduced by 17.7% from \$32.6 million to \$26.8 million at year end.

The 2008-09 result has given Methven confidence that it has the right financial, strategic and management aptitudes and attitudes to manage in recessionary times and deliver the best result possible in the circumstances.





## DIVIDEND

Directors are comfortable with the strength of the balance sheet, including the prudent level of borrowings, banking covenant compliance and favourable debt financing arrangements which are in place to August 2010.

However, given the continued uncertainty of the economic outlook, directors decided to be prudent and reduced the final dividend to 5.5 cps paid on 30 June 2009, down 8.3% or 0.5 cps on prior year. The gross dividend of 7.86 cps is fully imputed for New Zealand shareholders at 30.0%. For non-New Zealand resident shareholders a supplementary dividend of 0.9706 cps will be paid.

## STRATEGY

Our strategy to internationalise our business is built on establishing Methven's distinction as a world-class designer known for delivering unique and luxurious showering experiences that are not only kind to the planet but also look great and work efficiently too.

We have a growing portfolio of branded products from premium Satinjet® showerware for homes and hotels to value end Deva tapware and effective valving products. The breadth of the offering will allow Methven to cement supply arrangements with its merchant customers and prospective distributors in other parts of the globe.

Our new platform HomeSpa Shower Infusions range provides the opportunity to enter additional market segments including the beauty and wellbeing segment and market through diverse channels.

We operate an increasingly efficient global supply chain based on New Zealand as the centre for the design and prototyping of new products which are then manufactured in Asia by our proven, quality partners.

We have confidence that Methven has a robust business model geared to international expansion, a clear and achievable strategy and a team of highly competent and dedicated people able to manage through difficult times.

COVENANTS AND CASHFLOW POSITIVE	2009	2008
Interest Cover (EBITA/interest) – not less 2.5	6.9x	6.7x
Gearing ratio (Net Debt/EBITA) – not to exceed 3.5	2.0x	1.7x
Facility utilisation	74%	82%

## OUTLOOK

We remain confident that we can weather the current economic storm and remain on track to build profitable growth, long term.

It will not be easy. Trading conditions in all Methven's key markets remain extremely challenging and directors do not expect the company to be able to replicate the first half performance of 2008-09.

We will keep the market and shareholders informed of our progress, but given the volatility of world markets, the Board believes it would be unwise to provide any further guidance for the 2009-10 financial year.

## ACKNOWLEDGEMENTS

The past year has been one of great challenge and Directors wish to extend their appreciation to Group CEO, Rick Fala, and the Methven team for producing such a good result under adverse circumstances.

Not only have Methven people delivered another year of financial growth but have also continued to push ahead with internationalising the business and developing world-class design, engineering, manufacturing, supply chain, brand marketing and management competencies.

We are in good health to take on the next wave of challenges and stay true to our course to be a world leader in our chosen niche – delivering the ultimate shower experience.



Phil Lough  
Chairman

