



**Media release**

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### **Methven Readies for Innovative New Era**

Methven, New Zealand's leading showerware, tapware and valving designer and manufacturer, is on schedule with its strategy to build a global market for its unique, design led products and brand experiences.

"Ongoing investment in market expansion, new product design, brand development, outsourced manufacturing and logistics as well as in house capabilities were all progressing in line with the company's long term strategy timelines," Managing Director and CEO Rick Fala said in releasing the interim financial results for the year to 30 September 2006.

"We're putting in the hard yards now to create the platform for growth. We've got some revolutionary new designs and brands ready to roll in 2007 which we believe will excite consumers and deliver a totally new and personalised showering experience that will see Methven grow into a world-class competitor with a distinct value proposition in our chosen export markets."

Mr Fala said Methven Group was in good shape with a healthy performance for the six months to 30 September 2006 and was on track to deliver a full year performance and profitability slightly ahead of last year.

"We expect better full year results in Australia and modestly better performance in New Zealand, offsetting the expectation of a higher first year loss in the United States than originally anticipated," he said.

Looking at the half yearly results, Methven is reporting a Group NPAT of \$3.7 million, up 4.1% over last year's first half profit of \$3.5 million.

Group operating revenue increased 16.7% over the corresponding period in 2005 to \$34.7 million (2005: \$29.8 million), buoyed by surging Methven Australia sales which were up 59% while New Zealand sales grew a further 8% in a challenging market.

EBITDA increased a modest 3.7% to \$6.6 million (2005: \$6.4 million). This includes the growth in Australian profitability partly offset by the planned investment expenditure in establishing Methven in the United States which will develop into a key export market. New Zealand profitability was also in line with the strong first half result last year despite higher than expected raw material cost increase as well as investment in expanding the New Zealand team and developing the core capabilities in marketing and design essential to delivering longer term growth.

Cost efficiencies were being achieved from the planned outsourcing programme with a Methven team on site in China to oversee quality and logistics flow. The outsourcing programme will also provide the means to rapidly increase production to support our market expansion objectives.

Methven's New Zealand manufacturing operation is now more focused on higher value processes and products and continues to perform well.

Given Methven's strong balance sheet and positive outlook for continued growth in sales and profitability, Directors have declared a fully imputed interim dividend of 5.72 cents per share to be paid on 15 December 2006. The interim dividend is in line with the policy of distributing 80% of net profit after tax and corresponds to an annualised gross dividend yield of 11.1% based on the 30 September 2006 share price of \$1.54.

### **Market snapshots**

**Methven Australia** delivered significant growth for the six months to September 30 over the same period last year with EBITDA (excluding NEFA valves) reaching \$0.9 million for the first half of 2006-07, a marked improvement on the corresponding period EBITDA of \$0.2 million.

Methven Australia sales (mostly tap and showerware) grew 58.8% to \$11.5 million (2005: \$7.2 million) with the Methven exclusive Satinjet ranges really firing in the target mid to high segments of the market.

Methven benefited from having branded products available with consumer appeal at different price points and also gained sales of over \$1 million from the one off initiative by the New South Wales state government to subsidise low cost water saving showerheads to consumers.

Methven's strategy to strengthen its number two position in the highly competitive Australian valving market also produced a pleasing recovery in sales and margins.

"Methven's solid sales and marketing platform in Australia and our growing reputation as a quality supplier of differentiated, premium products are being successfully leveraged with the expectation of continued growth in the second half and beyond," Mr Fala said.

**New Zealand** efforts focused on successfully maintaining Methven's market leadership and preserving margins in light of expected dampening in consumer spending and continuing cost pressures on raw materials.

Sales grew a pleasing 7.8% to reach \$20.3 million (2005: \$18.8 million), assisted by relative stability in the core renovation and replacement market.

Mr Fala said sales of Satinjet product ranges continued to show robust gains and plumber support for the new NEFA high pressure valve range, designed in collaboration with the plumbing trade, also contributed to the ongoing growth.

New Zealand EBITDA was marginally down by 0.5% to \$6.2 million (2005: \$6.3 million). This reflects margin slippage due to higher than expected raw material cost increases as well as the extra costs of planned investment in essential global competencies in developing world class branding, design and engineering and logistics.

**The United States** market was in set up mode for the first six months of 2006-07. Investment levels were as budgeted, resulting in an EBITDA loss of \$0.5 million.

"Methven USA is now poised to benefit from this investment," Mr Fala said.

The focus to date has been on ensuring the distribution, sales and marketing infrastructure is in place as well as having the right US tailored Satinjet product mix and promotions available to now gain traction.

“We are continuing to forecast a full year loss in this establishment year which is likely to be bigger than our original projections but are still targeting to deliver first profits from this critical export market in the second half of 2007-08,” Mr Fala said.

**In Europe**, Methven’s other emerging market, work is progressing to plan on customising the Satinjet offering to appeal to high end French and Italian consumers.

Distribution options for entry to United Kingdom market are currently being explored.

#### **Performance Highlights for Half Year to 30 September 2006**

- Group operating revenue \$34.7 million, up 16.7%
- Group NPAT \$3.7 million, up 4.1%
- Methven Australia sales very strong, up 58.8% to \$11.5 million
- Good growth in New Zealand with sales up 7.8% to \$20.3 million
- United States first half market establishment stage on target; second half sales expected to gain traction but at a lower rate than initially planned
- Solid progress in logistics chain development through outsourcing
- Investment continuing in brand, design, sales and marketing capabilities
- Interim dividend of 5.72 cps to be paid on 15 December 2006
- Well positioned to achieve earnings growth targets in second half.

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