HELLABY HOLDINGS LIMITED - NZX / Media Release: 28 February 2011

Hellaby delivers strong performance improvement

- EBITDA up 51% to $14.6 million
- NPAT up 138% to $5.5 million
- Total net debt down 53% to $45.2 million
- $9.0 million free cashflow generated
- Successful capital restructuring
- Footwear and Equipment performance improves
- Interim dividend of 4 cents per share, fully imputed
- Small Shareholder Plan announced

Investment company Hellaby Holdings Limited today announced a significantly improved profit result for the six month period to 31 December 2010.

The Hellaby group reported after tax profit (NPAT) increased 138% to $5.5 million for the six months to 31 December 2010, ahead of the $2.3 million NPAT for the same period last year (which included a $1.2 million recovery for BBQ Factory).

This improvement reflects a combination of better subsidiary trading performances, particularly at its Equipment and Footwear divisions, as well as reduced group funding costs following Hellaby's recent capital restructuring.

Total group revenues were $229.0 million for the half year period, 2.0% higher than last year's $224.5 million, despite soft market conditions across most of the sectors in which Hellaby's subsidiaries operate.

EBITDA (group trading surplus before interest, tax, depreciation, amortisation and before one-off transactions) increased 50.9% to $14.6 million, up from last year's $9.7 million. EBIT (group trading surplus before interest, tax and one-off transactions) increased 82.6% to $10.9 million, up from $6.0 million for the same period last year.

Hellaby's return on funds employed or ROFE (EBIT as a percentage of average working capital plus fixed assets) was 21.6% for the period (calculated on a rolling 12 months), compared to 13.1% for the previous corresponding period – exceeding the company's 20% ROFE target for the first time in recent years.

The company generated $9.0 million free cashflow (cash from operations less net operational capex) for the half year period, compared to $9.8 million for the same period last year.

Hellaby Chairman John Maasland said that the company's half year performance confirmed that Hellaby's restructuring initiatives were bearing fruit.

"The strong improvement in profitability, despite flat sales and a weak economy, is outstanding. The board is also encouraged to see investor confidence in Hellaby returning as we deliver performance improvements."

Managing Director John Williamson noted that the stronger performance reflected improvements in internal processes and productivity, rather than any contribution from the economy.

"We have worked hard to establish a culture of continuous improvement across all our subsidiaries and these results reflect the remarkable job our management teams have done in rejuvenating their businesses in an incredibly difficult economic environment."

Divisional performance

The Automotive division's performance for the half year was typically steady, with EBIT up 6.4% to $9.6 million, from $9.0 million in the same period last year, despite flat trading conditions and depressed on-farm spending in the tractor tyre sector.

The Packaging division benefited from internal process improvements and increased demand from supermarkets and the dairy sector. Packaging's EBIT increased 13.8% to $2.6 million, from $2.3 million in the same period last year.

Over the past year, Hellaby's priority has been to improve the profitability of its Equipment and Footwear divisions, both of which have suffered significantly in the economic downturn. Mr Williamson said it was satisfying to have achieved this goal during the latest period.

The Equipment division EBIT increased to $0.1 million, a turnaround from its loss of ($1.7 million) for the same period last year. The turnaround has been driven primarily through restructuring. Sales were flat as demand for materials handling and construction equipment remained depressed.

The Footwear division achieved a $1.4 million EBIT profit, compared to a ($1.5 million) EBIT loss for the same period last year. The improvement follows the restructuring and repositioning of Number One Shoes. Consumer demand generally remains subdued and inconsistent for the footwear sector.

Balance sheet

Total net debt (interest-bearing debt including core bank debt and capital notes) reduced to $45.2 million at 31 December 2010, 53.4% lower than $96.9 million at 31 December 2009. This debt reduction reflects the company's recent equity raising, higher profits and more efficient management of working capital.

Hellaby's gearing (total net debt to total net debt plus equity) at 31 December 2010 was 26.3%, well within the group target of 45% or below, and significantly below last year's 52.0% gearing.

Mr Williamson said that the success of Hellaby's efforts in debt reduction over the last three years and recent successful $28.4 million equity raising had enabled the company to redeem its $50 million capital notes six months early.

"The company now has the most conservative capital structure in a very long time. We now have the financial capacity to invest in businesses and growth initiatives that add value and provide the returns we require."

Key metrics

Net asset backing at 31 December 2010 was $1.72 per share, compared with $1.77 per share at 31 December 2009. This reduction reflects the dilutive effects of the group's $28.4 million rights issue in October 2010, which increased the number of Hellaby shares on issue by 21.85 million or 42.9%. At 30 June 2010, prior to the rights issue, net asset backing per share stood at $1.96.

Net tangible asset backing was $0.95 per share, compared to $0.64 per share at 31 December 2009 (and $0.84 per share at 30 June 2010, just prior to the rights issue).

Hellaby's earnings per share for the period were 8.8 cents (fully diluted for the rights issue), compared with 4.5 cents for the same period last year.

Dividend

Mr Maasland advised that the Hellaby Board had declared an interim dividend of 4 cents per share, fully imputed, for the year ended 30 June 2011. This interim dividend will be paid on 6 May 2011 (record date 5:00 pm, 29 April 2011 for the purposes of determining shareholder entitlements).

An interim dividend of 3 cents per share was declared last year; however it should be noted that a year-on-year comparison is impacted by the increased number of shares following the 2010 rights issue.

Mr Maasland said that Hellaby's dividend policy of distributing around 50% of NPAT remained in place, and directors continued to recommend the company's Dividend Reinvestment Plan to shareholders.

Outlook

Mr Williamson said that the flat economy and its corresponding impact on Hellaby's sales remained the group's key concern. The business impact of the 22 February Christchurch earthquake was unclear at this early stage; however the company is seeking to ensure continuity of work for its people. The company was particularly cautious about trading conditions for its Equipment and Footwear divisions during the second half year period, and Hellaby was still unable to see many 'green shoots' across its trading sectors.

"We nonetheless prefer to find a positive angle in this weak economy," Mr Williamson said. "Our businesses are now so lean that any future revenue improvements should have a disproportionately positive impact on our profits going forward. Also, acquisition and investment opportunities are now more likely to emerge."

Mr Williamson said that the group's key operational challenges over the 2011 calendar year would be to further improve the profitability of its Equipment and Footwear subsidiaries, and to drive organic growth in its Automotive and Packaging subsidiaries.

"Hellaby is in good shape to take advantage of the opportunities that may come our way. Having addressed the critical performance issues facing us over the past three years, we can now concentrate on developing a platform for long-term value creation."

Small Shareholder Plan

Hellaby directors have approved a Small Shareholder Plan commencing March 2011, with the aim of improving the company's share liquidity and efficiency of its share register. The Plan is targeting the 4,450 shareholders (60% by number) who own 2,000 or less Hellaby shares. Eligible shareholders will be offered a cost effective opportunity to 'top up' or sell their Hellaby shares, with the company paying brokerage and registry costs. Full details of the Small Shareholder Plan will be mailed to eligible shareholders on 7 March.

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Hellaby Holdings Limited is an NZX listed investment holding company, with shareholdings in a diversified range of New Zealand and Australian industrial, distribution and retail businesses. Hellaby structures its investment portfolio through four divisions – Automotive, Equipment, Packaging and Footwear.