CAPRAL

# 2011 Full Year Results Presentation

CELEBRATING 75 YEARS

**22 February 2012**

CAPRAL LIMITED

# HIGHLIGHTS

## TWELVE MONTHS TO DECEMBER 2011

**... EBITDA[1] profit of $6.2m**

- Achieved in a declining market. Now at cyclical lows
- Anchored by substantial and ongoing cost savings
- Impacted by a LME $3m downwards inventory revaluation

**... Net loss of $8.0m**

**... $8.8m positive Operating cash flow**

- Tight control of working capital

**... A robust balance sheet with no debt**

Net cash of $14.8m at 31st December 2011

**... Progress with Anti Dumping measures**

- Government is progressing wide ranging reforms
- Customs Compliance resources have strengthened
- Market impact to date has been modest

**... High levels of customer service and product quality**

- Customer feedback is positive
- Market share maintained

**... Safety remains a core value**

- 31% reduction in Lost Time Injuries
- 39% reduction in hours lost due to injuries

[1] Earnings before net interest, tax, depreciation and amortisation

# FINANCIAL SUMMARY

## TWELVE MONTHS TO DECEMBER 2011

| | FULL YEAR 2011 | H1 2011 | H2 2011 | FULL YEAR 2010 | H1 2010 | H2 2010 |
|---|---|---|---|---|---|---|
| Sales Volumes - External (‘000 tonnes) | 48.3 | 24.5 | 23.8 | 55.6 | 28.5 | 27.1 |
| | **$m** | **$m** | **$m** | **$m** | **$m** | **$m** |
| Sales Revenue | 348.6 | 179.5 | 169.1 | 399.7 | 204.5 | 195.2 |
| **EBITDA** | 6.2* | 5.8 | 0.4 | 19.2+ | 8.4 | 10.8 |
| Depreciation/Amortisation | (12.6) | (6.1) | (6.5) | (12.1) | (6.0) | (6.1) |
| **EBIT** | (6.4) | (0.3) | (6.1) | 7.1 | 2.3 | 4.8 |
| Net Interest | (1.6) | (1.0) | (0.6) | (3.0) | (1.2) | (1.8) |
| Tax | - | - | - | 2.6 | - | 2.6 |
| **Profit/(Loss) after Tax** | **(8.0)** | **(1.3)** | **(6.7)** | **6.7** | **1.1** | **5.6** |

*Includes a $3.0m downward LME mark-to-market inventory valuation.

+Includes a $1.0m upward LME mark-to-market inventory valuation.

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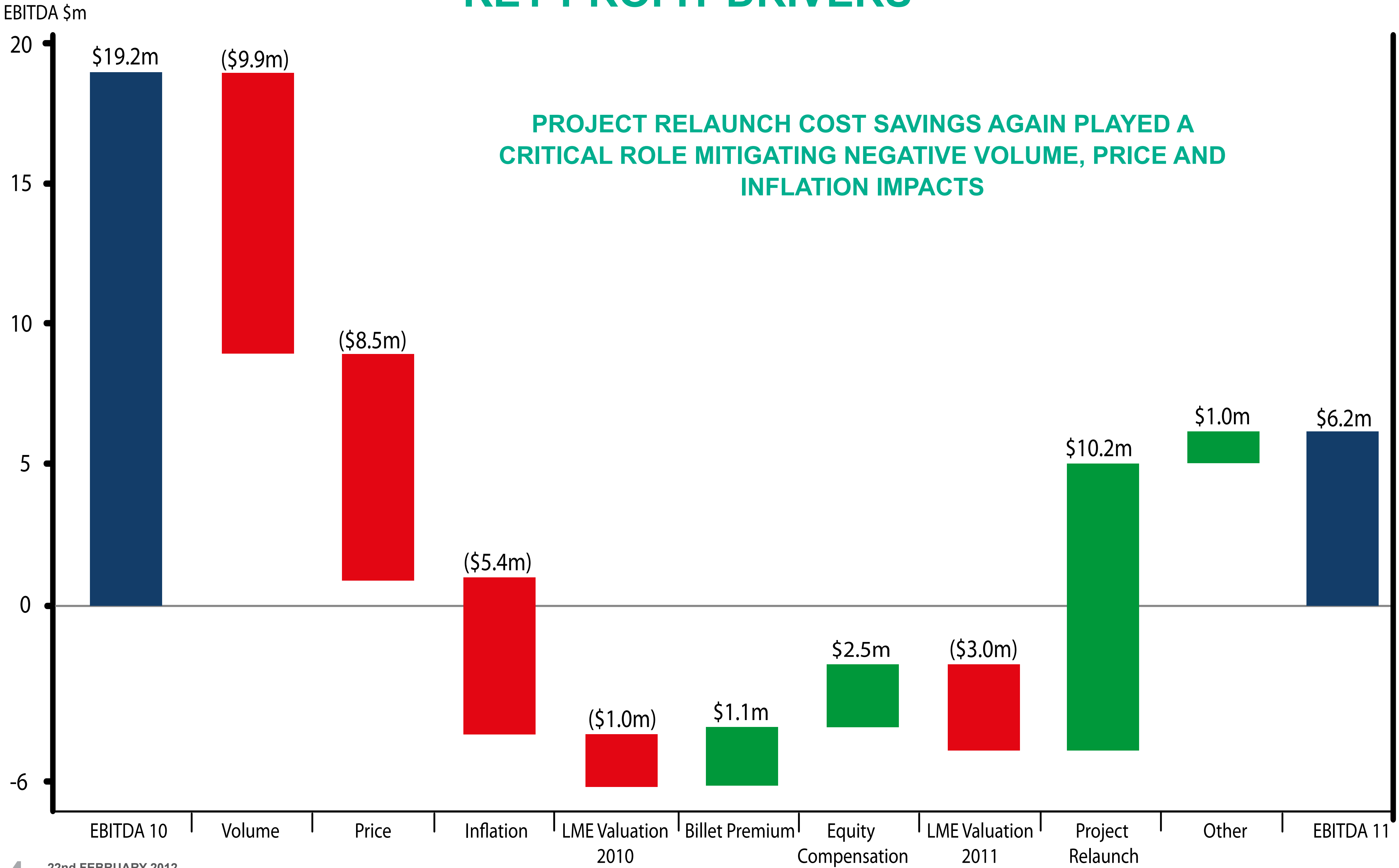
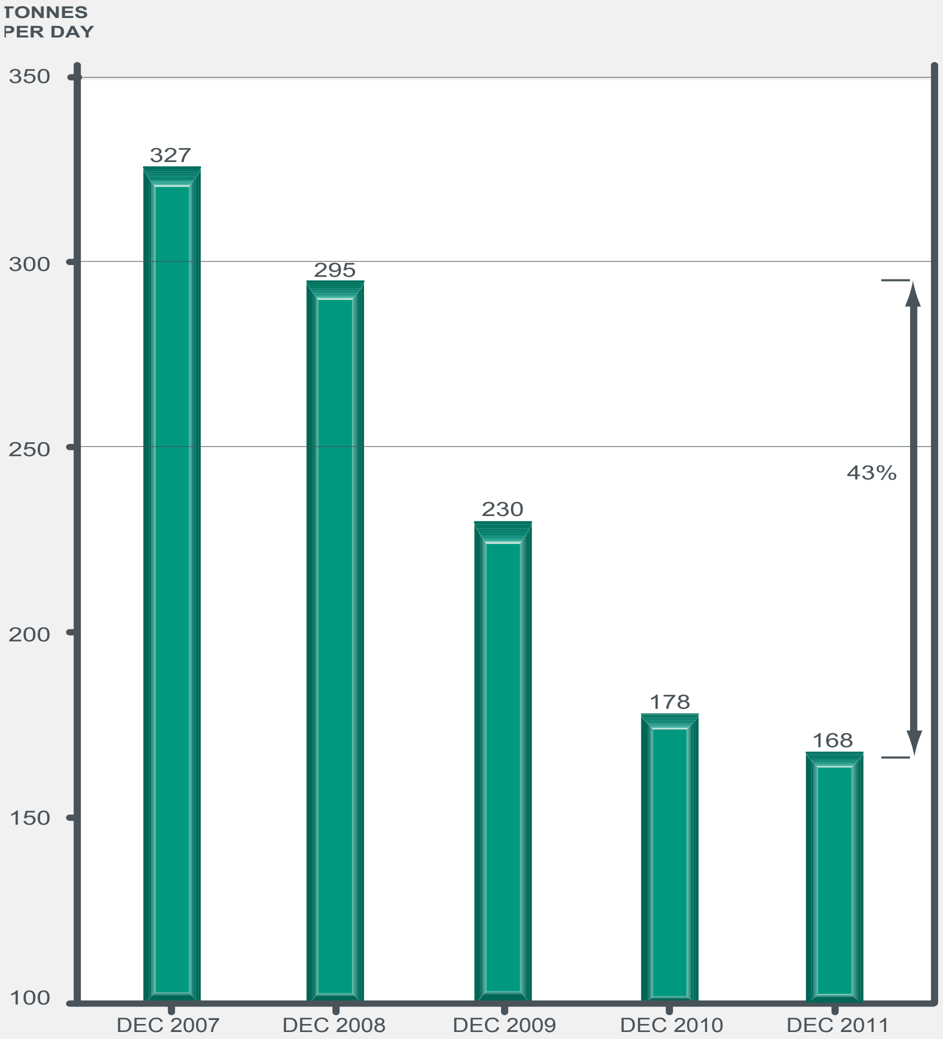
# KEY PROFIT DRIVERS



# EFFICIENCY AND COST CUTTING INITIATIVES HAVE SIGNIFICANTLY REDUCED THE FIXED COST BASE OF THE BUSINESS

## The Trading EBITDA[1] break even of the business has reduced by 43% since 2008




[1] Trading EBITDA is Earnings before net interest, taxation, depreciation, amortisation and log inventory revaluation.

Underlying costs have been reduced in excess of $30m pa over the 2008 base.

**Highlights**

- Employee head count has reduced by ~39% since 2008 to around 850 employees
- Manufacturing efficiency and recovery % improved
- Warehouse consolidation
- Aluminium Centres rationalisation and revitalisation
- Freight and Logistics efficiencies
- Procurement savings
- Corporate cost reductions
- General costs pruning.

# THE CASH POSITION IS IN GOOD SHAPE

Operating Cash Flow is positive

| | $m 2011 | $m 2010 |
|---|---|---|
| EBITDA | 6.2 | 19.2 |
| Working Capital | 1.9 | (2.3) |
| Interest paid | (1.6) | (2.7) |
| Equity Compensation Amortisation | 1.2 | 3.7 |
| Other | 1.1 | 1.9 |
| **Operating Cash Flow** | **8.8** | **19.8** |
| Sale of property, plant and equipment | - | 1.4 |
| Capex Spend | (5.5) | (3.0) |
| Acquisition | - | (1.3) |
| Interest Received | 0.3 | 0.2 |
| Decrease in Net Debt | 3.5 | 17.2 |

| | $m Dec 11 | $m Dec 10 | $m Dec 09 |
|---|---|---|---|
| Net Assets | 156.2 | 162.1 | 152.0 |
| Net Cash/(Debt) | 14.8 | 11.3 | (5.3) |
| Gearing - Net Debt/(Debt + Equity) | - | - | 3.4% |

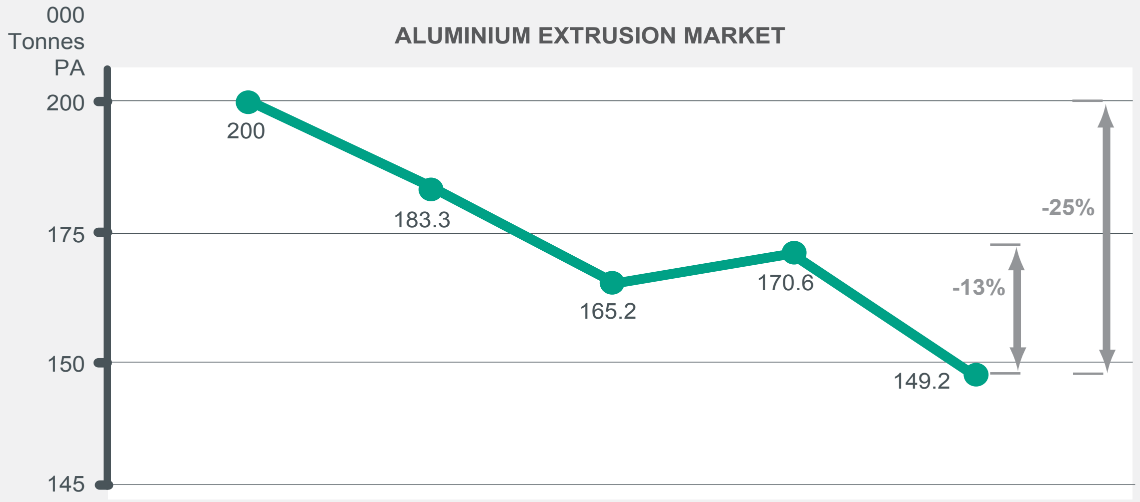
Resulting in a robust balance sheet with a positive cash balance[1]

[1] Intramonth debt levels ranged up to $12m

The finance facility with GE was renegotiated on favourable terms for a committed 3 year term

| Capral Finance Facilities | $m Limit | $m Balance Dec 11 | Dec 10 |
|---|---|---|---|
| GE Term Debt | 30 | Nil | 21.7 |
| GE Revolver | 60 | - | - |
| ANZ Overdraft | 0.4 | 0.3 | 0.3 |

# THE ALUMINIUM EXTRUSION MARKET HAS FALLEN BY ~25% SINCE ITS HIGH IN 2007

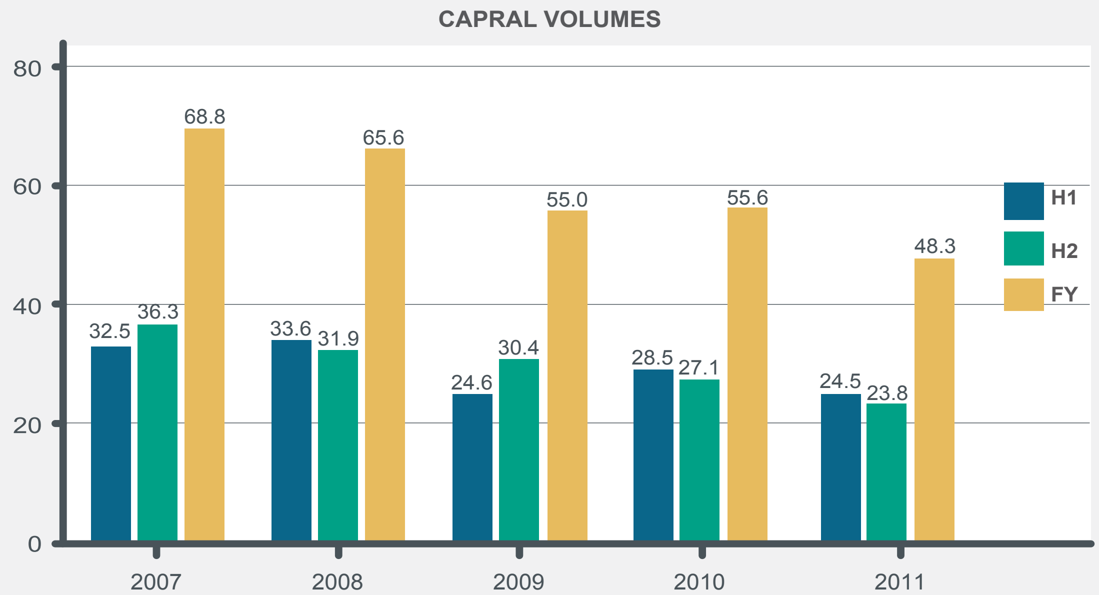



- The market declined by 13% in calendar 2011

Impacted by

- Queensland flooding and severe weather events in the Eastern States in Q1
- Declining consumer sentiment impacting market activity especially in H2.

**The market is now at cyclical lows and is poised for recovery**




- Capral volumes declined by 13% in 2011, broadly in line with the market weakening for the 12 months to December 2011
- Imports declined in 2011 in line with market demand
- Australian press capacity has expanded by ~20% in the last 3 years.

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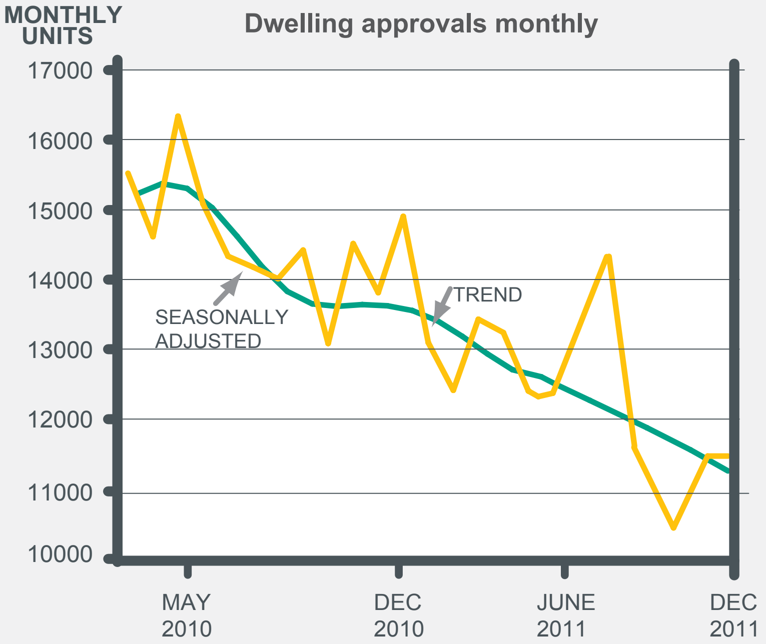
# DWELLING APPROVALS DECLINED BY 14% IN 2011, AND ARE AT CYCLICAL LOWS




Source • Bureau of Statistics
• Commsec

• Approvals have continued to be weak. The December 2011 quarter was the lowest since March 2009

• Total private sector housing approvals for 2011 at 92.7k were the weakest since 1996

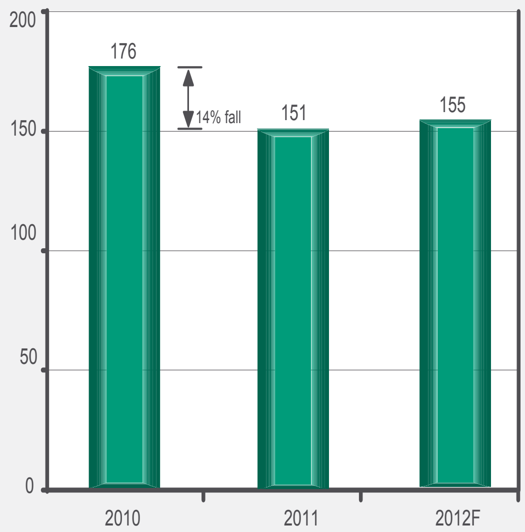
• The value of non-residential construction approved in December 2011 is 20.8% lower than a year ago.

**There is a large pent up demand, estimated at ~120,000 dwellings, with 70% in NSW**

| | UNDERLYING DEMAND ('000) 2011/12 - 2015/16 ANNUAL AVERAGE | DWELLING STOCK DEFICIENCY AS AT JUNE | | | | |
|---|---|---|---|---|---|---|
| | | 2009 | 2010 | 2011E | 2012F | 2013F |
| New South Wales | 47.6 | 52.7 | 75.7 | 87.9 | 103.9 | 113.3 |
| Victoria | 48.9 | 27.5 | 30.8 | 20.2 | 13.5 | 12.8 |
| Queensland | 40.8 | 7.2 | 5.6 | 5.7 | 14.3 | 22.9 |
| South Australia | 10.8 | 0.6 | 0.2 | -1.7 | -2.3 | -2.2 |
| Western Australia | 27.6 | 8.6 | 8.7 | 8.3 | 13.0 | 17.0 |
| Tasmania | 2.4 | -0.6 | -0.9 | -1.7 | -2.1 | -2.2 |
| Northern Territory | 2.0 | 1.6 | 1.7 | 2.0 | 2.7 | 3.5 |
| A.C.T | 2.6 | 1.9 | 1.6 | -0.4 | -2.3 | -2.6 |
| **Australia** | **182.8** | **99.6** | **123.4** | **120.3** | **140.8** | **162.6** |

E = ESTIMATE
F = FORECAST
SOURCE: BIS SHRAPNEL & ABS DATA SEPT 2011

ANNUAL DWELLING APPROVALS




Approvals are forecast to increase modestly in the 2nd half of 2012

SOURCE: BIS SHRAPNEL

# ANTI DUMPING

## The impact of the imposed anti dumping measures to date has been modest

- The levels of duties are relatively low
- There are indications of a concerning level of circumvention by importers of the measures imposed

## Response

- The Australian Government is implementing an Anti Dumping reform agenda with 28 measures announced. The first two tranches have been approved by or are before Parliament, with the next two tranches due to Parliament by the Winter sitting
- The Federal Government have set up a taskforce “Bluenet” to pursue anti circumvention activities.

## Key issues to be pursued

- Achieve legislation change to enable the use of “surrogate” methodology in Australia, similar to the USA, Canada and the E.U.
- Anti-circumvention measures to capture surreptitious practices before the Border controls, as well as “sales at a loss” and “rebates” once the imports are in Australia.

# SAFETY

| Measure/Year | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| LTI/MTI | 41 | 31 | 43 | 30 |
| LTI/MTI Frequency* | 17.5 | 16.3 | 23.1 | 19.5 |
| LTI Severity* | 162.1 | 92.9 | 276.7 | 194.9 |

* Frequency = No. of injuries per million work hours
* Severity = No. of days lost per million hours worked

Safety performance improved in 2011

# ENVIRONMENTAL

Capral is committed to minimising the environmental impacts of its extrusion and distribution activities.
Capral has a relatively modest carbon footprint and is not included in the top 500 site emitters.

Emissions come from two sources:

| | | KTPA |
|---|---|---|
| Scope 1 | Mainly from the use of gas for heating ovens | 10 |
| Scope 2 | From electricity | 40 |

It is anticipated that the additional cost from the carbon tax linkage to electricity charges will be around $1.5m p.a. commencing July 2012.

# A COMPREHENSIVE STRATEGIC PLAN IS BEING IMPLEMENTED

**DEFEND**
What we have

- Leading Market Share
- Long term customer relationships
- Experienced and committed workforce
- Committtment to excellence
- National footprint of world class extrusion plants
- National distribution and logistics capability
- Largest product range
- Strong balance sheet

**OPTIMISE**
What we do

- Project Relaunch cost savings
- Local press transition
- Lean Manufacturing implementation
- Variablise the cost base
- Right size Bremer
- Rationalise the product range
- Exit unprofitable activities
- Price increases

**GROW**
In the future

- Leverage the inevitable housing cycle upswing
- Boost the internal distribution channel to market
- Develop innovative new products
- Target geographic and market channel initiatives
- Evaluate "Bolt on's" in the medium term

**and PURSUE A BETTER ANTI DUMPING OUTCOME**

# OUTLOOK

- Manufacturing generally is facing challenging conditions with subdued demand and rising input costs, exacerbated by a high $A and negative consumer sentiment
- Demand overall is expected to remain soft. BIS Shrapnel is forecasting a flat first half for housing approvals followed by a 7% increase in the second half compared to 2011
- In the absence of a market uplift or a reduction in the level of imports, Capral volumes are expected to remain broadly steady in 2012
- A sustained high $A will continue to put pressure on pricing and gross margins
- The introduction of the Carbon Tax is anticipated to add ~$1m in costs for the second half
- Project Relaunch cost savings are targeted to at least cover inflation and carbon tax impacts
- Assuming continuing challenging market conditions, EBITDA is expected to be in the $5m to $8m range
- Operating cash flow is expected to be positive for the full year with a net cash position as at 31st December 2012
- There is upside from any positive developments in Anti Dumping measures.

**CAPRAL IS WELL PLACED, WITH EXISTING CAPACITY TO LEVERAGE ANY DEMAND UPTURN.**

**THE STRATEGIC AND TURNAROUND PLANS ARE STRENGTHENING THE UNDERLYING BUSINESS**

# CAPRAL PROFILE

- Australia's largest manufacturer and distributor of aluminium profiles
- A National footprint of world class extrusion plants

  *8 operating presses with annual capacity of 70KT*
- A network of 5 major distribution facilities, 6 regional centres and 12 metropolitan trade centres with an extensive range of products and logistics capabilities
- Market leader in supply to fabricators and distributors, focussing on the Residential, Commercial and Industrial segments
- 850 employees, with significant industry skills and expertise
- Innovative R&D capability, well positioned to take advantage of changing building regulations in Australia
- A listed ASX company, with a 75 year heritage.

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# THE TURNAROUND STRATEGY IS DELIVERING

## The First Phase has been completed

- **Stabilise the Business**
  - Recapitalise the Balance Sheet
  - Embed a new operating philosophy
  - Implement a lean management structure with increased accountability
  - Realise significant cost savings
  - Launch an Anti-Dumping Case
  - Achieve positive underlying cash flow and profitability.

- **Optimise Business Performance "Project Relaunch"**

***Extrusion***
- Transition to a state based manufacturing approach
- Fix or exit unprofitable "value adding" activities
- Consolidate space requirements at the Bremer facility

***Distribution***
- Lift underperforming state operations
- Optimise the supply chain
- Implement sales growth initiatives

***Corporate Costs***
- Continue to right size

***General***
- "Fair" anti-dumping resolution

## The Second Phase is underway

***Project Relaunch contributed a further $10.2m in 2011 in operational improvements and cost savings***

## The Third Phase

- Leverage capability
- Pursue strategic growth options

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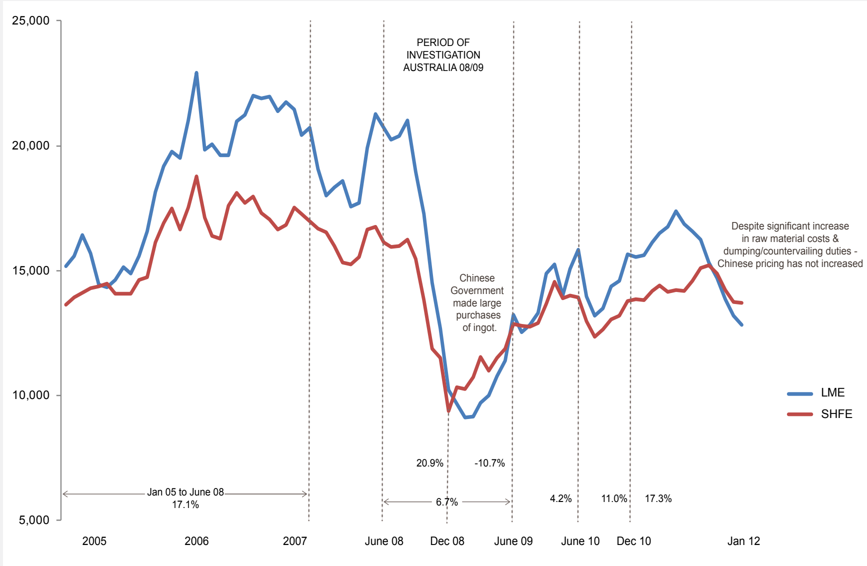
# ANTI DUMPING

Aluminium Extrusion imports, mainly from China have aggressively taken around 35% of the Australian Market in recent years.

The cost to Australian industry has been high*

- Loss of around 500 direct jobs
- Loss of around 2000 Australian jobs
- Some Australian presses operating at utilisation rates of 60%

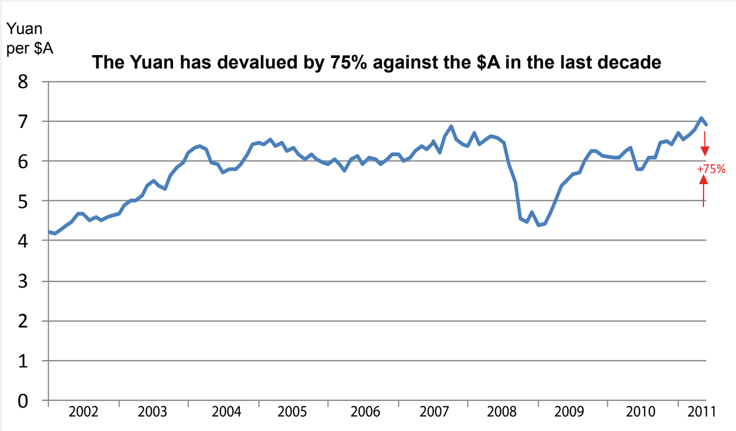
* Estimates by the Australian Aluminium Extrusions Association




Imports to Australia from China has been enabled by:

## 1. Subsidised Primary Aluminium

- Primary aluminium represents around 70% of Chinese extrusion costs
- Chinese extrusion companies are supplied primary aluminium at **up to 20% lower rates** than prevailing world prices




## 2. Chinese currency control (manipulated)

- The Chinese government set the Yuan rate
- Commentators say the Yuan is undervalued by 20% to 30%
- The Yuan has devalued by 75% against the $A in the last decade

# ANTI DUMPING

Capral won the case for dumping and countervailing duties to be applied on Chinese imports.

1. There is an Australian Industry producing like goods ✓
2. Certain extrusions were dumped ✓
3. Countervailing subsidies exist in China ✓
4. The Australian Industry producing like goods experienced injury ✓
5. Dumping and subsidisation caused material injury to the Australian Industry ✓

But imposed measures were much lower than expected and much lower than similar jurisdictions...