

NZX Release

28 February 2020

### Preliminary results announcement for first half of FY20

Good Spirits Hospitality Limited (NZX: GSH) announces that its unaudited net profit after tax (NPAT) for the six months to 31 December 2019 was \$292,275, compared to an unaudited net profit of \$615,259 in the previous corresponding period, a decrease of \$(322,984). The decrease has been driven by softer trading conditions in the first half of the year, including labour cost pressures from a rise in the minimum wage and a shortage of skilled chefs in New Zealand and the material impact of the adoption of a new Accounting Standard for Leases (IFRS16).

Net revenue for the period was \$14,741,294 compared to \$12,503,229 for the six months to 31 December 2018, an increase of 18%. On a like for like basis, revenue increased by 3.3%. Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) before significant items was \$4,136,147 compared to \$2,781,428 in the six months to 31 December 2018, an increase of 48.7%. This was improved by \$974,855 for the accounting policy change for leases as discussed below. Removing the positive impact of the accounting policy change EBITDA improved 13.7% when compared to the half year ended 31 December 2018.

The underlying NPAT from continuing operations and before significant items (Underlying NPAT) was \$558,184 in the reporting period, compared to \$724,301 in the previous corresponding period. The impact on underlying NPAT of the change to accounting policy (\$171,433) wholly accounted for the deterioration in underlying NPAT when compared to the half year ended 31 December 2018.

There were significant items consisting of finance department restructuring and advisory costs after tax of \$(265,909) in the period compared to acquisition costs after tax of \$(85,931) in the previous period. Operating cash flow was \$1,625,569 compared to \$1,501,815 in the previous period.

A reconciliation of the Group's Underlying NPAT to its reported result complying with generally accepted accounting practice (GAAP) is as follows.

	Half Year Ended	
	31 December 2019 \$000	31 December 2018 \$000
<b>Underlying NPAT from continuing operations prior to significant items</b>	558	724
<b>Significant items (net of tax)</b>		
Acquisition costs	-	(86)
Restructuring and advisory costs	(266)	-
<b>Net profit from continuing operations</b>	292	638
<b>Discontinued items (net of tax)</b>		
Profit/(loss) for the period from discontinued operations	-	(23)
<b>Reported net profit/(loss) for the year</b>	292	615

## Updated Outlook and Market Guidance

Our previous market guidance for FY20, as announced on 26 September 2019, was for the Group to achieve Revenue of \$29m - \$30m, EBITDA prior to significant items of \$6.3m - \$6.5m and Underlying NPAT of \$1.5m - \$1.6m for the full FY20.

The Group adopted IFRS 16 - Leases as per note 1 in the financial statements. The impact of this change in accounting policy was not recognised into the previous guidance given. This had the impact of reclassifying lease costs of \$974,855 (which improved EBITDA), but increasing interest expense by \$514,314 and depreciation expense by \$698,643 which negatively impacted NPAT. The change in accounting policy also increased property plant and equipment and borrowings by \$15,825,034 as the property leases have been brought "on balance sheet" consistent with the required accounting treatment of IFRS16.

In addition to the impact of the change in accounting policy general trading has been below forecast and this is anticipated to continue throughout the current financial year. This subdued trading has been impacted by several factors including:

- Lower than forecast turnout and revenue during the Rugby World Cup for both pool games and finals
- The cancellation of several large events in Auckland including two Metallica concerts in October and a KISS concert in December
- A rise in wage costs due to several factors including an increase in the minimum wage and a shortage of skilled chefs in New Zealand placing upward pressure on the cost of such skilled workers
- Increased competition in direct proximity to a number of GSH outlets

The table below quantifies the impact each of the above items on guidance.

	Revenue	EBITDA (before significant items)	Underlying Net Profit After tax
	\$'000	\$'000	\$'000
IFRS 16 Impact	Nil	1,950	(350)
Trading Related	(1,300)	(700)	(450)
<b>Total Change</b>	<b>(1,300)</b>	<b>1,250</b>	<b>(800)</b>
<b>Prior Guidance</b>	<b>29,000 – 30,000</b>	<b>6,300 – 6,500</b>	<b>1,500 – 1,600</b>
<b>Updated Guidance</b>	<b>27,700 - 28,700</b>	<b>7,550 – 7,750</b>	<b>700 – 800</b>

### **GSH Funding**

GSH's current banking facilities with Pacific Dawn Limited (a wholly owned subsidiary of the Nomura banking group) expire in mid-2021. In addition to the expiry of these facilities there also continues to be pressure on the Gearing Ratio contained within GSH's banking facilities (refer to GSH's last Annual Report lodged on 1 October 2019 for further detail).

GSH has commenced negotiations with Pacific Dawn Limited to both extend and amend the current facilities.

### **No interim dividend**

The Board has resolved that no interim dividend will be declared for the period ended 31 December 2019.

For further information, contact:

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### **About Good Spirits Hospitality Limited**

Good Spirits Hospitality is an NZX Main Board-listed investment company focusing in the Hospitality sector. The shell company was formed in December 2011 and acquired The Better Bar Company group business in November 2014.