

WEBVTT

1

00:00:02.320 --> 00:00:04.420

All right, everyone, let's make a start of it today.

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00:00:04.480 --> 00:00:07.380

I'm really thrilled to be welcoming back Tony Dragicevich,

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00:00:08.200 --> 00:00:10.340

the CEO and Managing Director of Caprol.

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00:00:11.120 --> 00:00:13.340

This is the second time we've had a chat with Tony.

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00:00:13.420 --> 00:00:15.850

The first time, as I was just saying, is long overdue.

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00:00:15.880 --> 00:00:18.840

It was actually about two years ago, almost to the day, in fact,

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00:00:19.860 --> 00:00:21.980

and we covered a lot of the foundational stuff then.

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00:00:22.120 --> 00:00:25.920

So if you are new to the business, there's a lot of evergreen stuff in that, that's

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00:00:25.980 --> 00:00:29.800

well worth a revisit. But the very quick, high-level view

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00:00:29.840 --> 00:00:33.290

is that you're dealing here with Australia's leading aluminium extrusion and rolled

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00:00:33.380 --> 00:00:36.960

products provider. They operate out of six different extrusion plants.

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00:00:37.060 --> 00:00:40.780

They've got a national network of 23 different trade and distribution centers,

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00:00:41.300 --> 00:00:45.060

and these are the kinds of products that's all obviously in building, residential.

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00:00:46.080 --> 00:00:50.040

Historically, it was really the bread and butter, but also commercial, and also

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00:00:50.080 --> 00:00:52.100

in a bunch of other industries as well.

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00:00:52.200 --> 00:00:52.380

So,

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00:00:53.240 --> 00:00:57.200

you're looking at things in all manner of different industries, whether

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00:00:57.220 --> 00:01:01.020

it be transport, marine, infrastructure, solar, these kinds of things.

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00:01:01.620 --> 00:01:05.181

And the thing that I always think is worth calling out with Caprol

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00:01:06.200 --> 00:01:06.780

is the

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00:01:07.860 --> 00:01:10.820

longevity of this business is something that's pretty remarkable.

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00:01:11.260 --> 00:01:15.100

I forget the exact stat, but the average life of a listed company is

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00:01:15.280 --> 00:01:18.380

20 years or something like that. It might even be shorter these days.

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00:01:18.940 --> 00:01:22.860

Well, this company goes back to 1936, and it's been listed on

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00:01:22.900 --> 00:01:26.690

the ASX since 1958, so it's quite a feat and

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00:01:26.720 --> 00:01:30.440

worth mentioning. Just to give you a sense of where the company sits

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00:01:30.500 --> 00:01:32.880

today, reports on a calendar year basis.

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00:01:32.960 --> 00:01:35.080

So the last year, we

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00:01:35.920 --> 00:01:36.780

finished off with what?

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00:01:37.700 --> 00:01:40.720

Something like \$636 odd million

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00:01:41.400 --> 00:01:45.240

in, sorry, \$686 million in revenue, \$35 million in net

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00:01:45.320 --> 00:01:48.860

profit. And to give you a sense of how that's evolved, that's about double what the

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00:01:48.900 --> 00:01:50.740

net profit was about a decade ago.

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00:01:51.580 --> 00:01:55.500

Another thing that will catch your eye, and I know has been mentioned elsewhere,

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00:01:55.560 --> 00:01:59.040

is that you're looking at a company that's effectively debt-free with over 60

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00:01:59.060 --> 00:02:01.040

million of cash on the balance sheet.

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00:02:01.400 --> 00:02:04.500

So when you add in the tangible assets here, you've actually got a

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00:02:04.940 --> 00:02:08.900

business whose market cap is less than the NTA, than the net

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00:02:08.920 --> 00:02:12.680

tangible asset value. And probably even more so once you

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00:02:12.690 --> 00:02:14.020

account for some of these,

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00:02:16.180 --> 00:02:18.000

the accounting treatment of various leases.

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00:02:18.300 --> 00:02:21.460

So I might get Tony to elaborate on that in a little bit.

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00:02:21.940 --> 00:02:25.160

But yeah, it's an interesting time for the business.

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00:02:25.180 --> 00:02:27.829

As I was just saying off air, well, Tony was just saying off air to us, there's

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00:02:27.840 --> 00:02:31.600

some interesting things happening in the world that likely keep things

46

00:02:31.640 --> 00:02:33.970

interesting for us. So we'll get into all of that.

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00:02:34.120 --> 00:02:38.000

Just a quick reminder, none of this is financial advice, which it never is, and

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00:02:38.180 --> 00:02:40.180

we've had tons of really good questions come through.

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00:02:40.260 --> 00:02:43.440

So if you can think of any as we go, be sure to use that Slido link, and I'll put

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00:02:43.500 --> 00:02:45.260

them to Tony when we get the chance.

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00:02:45.300 --> 00:02:48.220

But with all of that out of the way, Tony, thanks for your time today.

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00:02:48.580 --> 00:02:51.460

Andrew, good to see you again. I can't believe it's two years.

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00:02:51.500 --> 00:02:55.100

It seems like not long ago at all. Doesn't time move too fast?

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00:02:55.440 --> 00:02:59.280

It does, and it seems to get faster as each year goes

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00:02:59.320 --> 00:03:01.620

past, which is a scary thing.

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00:03:03.220 --> 00:03:03.810

Well, maybe

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00:03:05.120 --> 00:03:06.920

that's a good place to start, actually.

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00:03:07.080 --> 00:03:09.560

Since we last chatted, what do you think the

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00:03:10.420 --> 00:03:13.400

highlights of the business have been in that two-year period?

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00:03:13.500 --> 00:03:16.200

I just want to touch on a couple of things you mentioned-

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00:03:16.320 --> 00:03:16.490

Oh, yeah

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00:03:16.520 --> 00:03:20.000

... in pre-lim there. Caprol, this year, we celebrate our

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00:03:20.200 --> 00:03:21.980

90th year of operation. So-

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00:03:22.440 --> 00:03:23.000

Congrats

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00:03:23.500 --> 00:03:26.700

... and also 1958 was a pretty good year because yours truly

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00:03:27.620 --> 00:03:29.900

just came onto earth at that time. So-

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00:03:30.200 --> 00:03:31.040

A great vintage

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00:03:31.080 --> 00:03:31.080

...

69
00:03:31.900 --> 00:03:35.040
a couple of milestones in 2026. But-

70
00:03:35.300 --> 00:03:36.700
Yeah

71
00:03:36.710 --> 00:03:38.630
... yeah, no, big year, and we were really pleased.

72
00:03:38.640 --> 00:03:41.820
You might see on the background there, Australia Made campaign.

73
00:03:41.920 --> 00:03:43.420
So we were-

74
00:03:43.660 --> 00:03:43.690
Yep

75
00:03:43.690 --> 00:03:46.200
... very proud to be

76
00:03:47.160 --> 00:03:51.060
selected as the launch site for the new Made in Australia

77
00:03:51.160 --> 00:03:55.080
campaign earlier this year, and it gets released, I think, next week

78
00:03:55.160 --> 00:03:57.380
is actually the Australian Made

79
00:03:58.120 --> 00:03:59.980
campaign week.

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00:04:00.900 --> 00:04:04.760
But Caprol side at Smithfield, we had a few dignitaries there and a

81
00:04:04.800 --> 00:04:08.760

couple of politicians, and so we're very proud to be,

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00:04:09.700 --> 00:04:13.480

as part of our heritage, be selected as a launch site for that new campaign.

83

00:04:13.560 --> 00:04:17.500

So, that's just a couple of nice things to start the conversation off.

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00:04:18.140 --> 00:04:18.500

Yep. Those-

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00:04:18.510 --> 00:04:21.360

So the last two years since we've spoken, well,

86

00:04:22.060 --> 00:04:23.900

our

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00:04:24.720 --> 00:04:25.900

performance has held up

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00:04:27.160 --> 00:04:29.060

particularly well in the last couple of years.

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00:04:29.360 --> 00:04:30.260

Despite the-

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00:04:30.380 --> 00:04:30.480

Yeah

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00:04:31.080 --> 00:04:35.070

... post-COVID slowdown in the housing market, which is our

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00:04:35.240 --> 00:04:36.100

largest single

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00:04:37.380 --> 00:04:41.020

driver of our volumes, it represents about 40% to 45% of our total

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00:04:41.060 --> 00:04:43.080

volumes. We've still managed to produce

95
00:04:43.960 --> 00:04:46.520
good earnings, strong cash flow,

96
00:04:47.660 --> 00:04:48.520
and as you

97
00:04:49.680 --> 00:04:50.100
mentioned,

98
00:04:51.320 --> 00:04:54.120
still trading slightly below NTA.

99
00:04:54.240 --> 00:04:58.040
And with strong, as you say, net cash position at the end of

100
00:04:58.060 --> 00:05:01.500
December, our financial year ending just over 60 million.

101
00:05:01.560 --> 00:05:05.020
So, on a performance basis, given

102
00:05:05.120 --> 00:05:07.870
how tough it's been in some sectors of the market,

103
00:05:08.680 --> 00:05:11.500
we're really pleased and really proud of our performance over the last couple of

104
00:05:11.560 --> 00:05:14.400
years. So, looking to

105
00:05:14.620 --> 00:05:16.020
2026, we

106
00:05:17.220 --> 00:05:21.120
were looking forward to a rebound in the housing market with housing starts

107
00:05:21.360 --> 00:05:23.140
starting to lift in the second half of last year.

108
00:05:24.540 --> 00:05:28.440

I guess it's a little bit of unknown at the moment as to

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00:05:28.460 --> 00:05:32.240

whether that's going to eventuate the way we would've hoped, given the

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00:05:33.080 --> 00:05:36.840

multiple interest rises we've had this year, inflation being higher than what it

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00:05:36.880 --> 00:05:38.150

should be, or

112

00:05:39.840 --> 00:05:41.780

certainly what the Reserve Bank thinks it should be.

113

00:05:42.560 --> 00:05:43.420

Good addition.

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00:05:43.840 --> 00:05:47.420

And also, inflationary pressures on building products, making housing

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00:05:48.020 --> 00:05:49.820

build affordability a bit difficult.

116

00:05:49.860 --> 00:05:50.020

So-

117

00:05:50.700 --> 00:05:50.820

Mm

118

00:05:50.980 --> 00:05:53.780

... remaining some challenges in the market, but the business is still performing

119

00:05:53.840 --> 00:05:54.080

well.

120

00:05:54.660 --> 00:05:54.780

Yep.

121

00:05:55.240 --> 00:05:59.140

But the Middle East has caused a bit of a hiccup in aluminium

122
00:05:59.360 --> 00:06:00.360
markets globally.

123
00:06:00.840 --> 00:06:01.000
Yep.

124
00:06:01.040 --> 00:06:03.380
And we have not been immune from that, so

125
00:06:04.428 --> 00:06:06.968
Maybe that's worth digging into a little bit because

126
00:06:08.008 --> 00:06:10.928
you follow the news, everything's about oil.

127
00:06:11.608 --> 00:06:13.468
What's the impact from the

128
00:06:14.408 --> 00:06:15.588
aluminum side of things?

129
00:06:17.628 --> 00:06:19.108
Well, the Middle East

130
00:06:19.988 --> 00:06:23.888
produces nearly 10% of global aluminum supply.

131
00:06:24.308 --> 00:06:24.548
Okay.

132
00:06:24.908 --> 00:06:28.728
Obviously, it's a low energy cost

133
00:06:28.948 --> 00:06:30.728
region country, particularly in gas,

134
00:06:31.668 --> 00:06:35.348
and hence following suit with energy being the biggest

135
00:06:35.428 --> 00:06:38.868

component of aluminum production cost.

136

00:06:39.008 --> 00:06:41.948

It's nearly 10% of the world's supply.

137

00:06:42.668 --> 00:06:43.028

Yeah.

138

00:06:43.148 --> 00:06:47.068

The Strait of Hormuz is currently closed, as you know, and that's where

139

00:06:47.088 --> 00:06:47.788

all of the

140

00:06:48.708 --> 00:06:51.048

shipments come through out of the Middle East.

141

00:06:52.348 --> 00:06:56.148

And also they are highly reliant, those smelters,

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00:06:56.248 --> 00:06:59.888

on alumina from Australia getting into the country to produce

143

00:06:59.988 --> 00:07:00.588

aluminum.

144

00:07:01.108 --> 00:07:01.288

Yeah.

145

00:07:01.868 --> 00:07:05.228

And when you compound that with the fact that two of the

146

00:07:05.288 --> 00:07:07.948

smelters in the Middle East actually

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00:07:08.848 --> 00:07:09.708

came under

148

00:07:10.728 --> 00:07:11.128

attack-

149

00:07:11.848 --> 00:07:12.128

Right

150

00:07:13.008 --> 00:07:16.928

... over the last month, and with minor damage done, it's created

151

00:07:17.788 --> 00:07:20.108

a fair bit of challenge for the aluminum

152

00:07:21.708 --> 00:07:22.968

supply globally.

153

00:07:23.448 --> 00:07:23.608

Yep.

154

00:07:23.868 --> 00:07:27.528

So what has that done? That's led to a significant

155

00:07:27.608 --> 00:07:31.208

increase in the aluminum price, the LME price of

156

00:07:31.268 --> 00:07:34.588

aluminum, and also the regional premiums that we

157

00:07:34.648 --> 00:07:38.288

pay on a quarterly basis. So we have seen

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00:07:38.388 --> 00:07:42.288

almost a 20% lift in aluminum

159

00:07:42.348 --> 00:07:45.528

prices in the last five to six weeks.

160

00:07:45.948 --> 00:07:46.228

Mm.

161

00:07:47.528 --> 00:07:51.328

And of course, that's challenging for us, for our customers in particular.

162

00:07:51.968 --> 00:07:55.928

Our pricing mechanisms allow us to pass those on

163

00:07:55.988 --> 00:07:56.928

in a reasonable fashion.

164

00:07:58.088 --> 00:07:58.098

Yep.

165

00:07:58.098 --> 00:07:58.688

But clearly,

166

00:07:59.688 --> 00:08:01.348

when we've got large customers,

167

00:08:02.248 --> 00:08:06.228

particularly the major window fabricators supplying the project

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00:08:06.288 --> 00:08:10.088

home building market, very difficult to go to those customers

169

00:08:10.188 --> 00:08:14.128

with a significant lift in pricing as a

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00:08:14.168 --> 00:08:15.168

result of

171

00:08:16.028 --> 00:08:16.828

what's happened in the last

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00:08:17.648 --> 00:08:17.888

month.

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00:08:20.528 --> 00:08:21.268

Difficult but

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00:08:22.128 --> 00:08:22.988

understandable.

175

00:08:24.668 --> 00:08:26.688

Not that they would be happy about it, but

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00:08:26.728 --> 00:08:30.568

what else

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00:08:30.628 --> 00:08:34.528

can you do in that scenario? And it feels like for

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00:08:34.588 --> 00:08:38.369

projects that are at least underway already, it's a non-discretionary

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00:08:38.428 --> 00:08:40.188

kind of thing. Is it

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00:08:41.129 --> 00:08:42.228

more that

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00:08:43.408 --> 00:08:46.618

it delays projects that otherwise might have gone forward,

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00:08:47.528 --> 00:08:51.388

or is there an impact in people perhaps who have

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00:08:51.608 --> 00:08:55.528

not budgeted, customers who have not budgeted properly and might be a bit tardy

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00:08:55.548 --> 00:08:59.298

in paying their invoices or... Yeah, just walk us through that

185

00:09:00.588 --> 00:09:01.008

impact.

186

00:09:02.428 --> 00:09:05.888

Look, I don't think it's really a timing issue. It's more a matter of cost.

187

00:09:06.488 --> 00:09:06.648

Right.

188

00:09:07.308 --> 00:09:11.108

When the large project builders, unlike

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00:09:11.168 --> 00:09:15.057

a lot of the small to medium builders operate on a cost plus or a time and

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00:09:15.108 --> 00:09:18.948

materials basis, but there is a big section of the housing

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00:09:19.028 --> 00:09:19.468

market

192

00:09:20.848 --> 00:09:23.508

where they operate on a fixed price contract with a homeowner.

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00:09:24.028 --> 00:09:24.088

Right.

194

00:09:24.108 --> 00:09:25.848

The builder's on a fixed price contract.

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00:09:26.328 --> 00:09:26.428

Yep.

196

00:09:26.628 --> 00:09:27.798

The window fabricator

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00:09:29.028 --> 00:09:31.168

has got a big cost increase coming through.

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00:09:31.228 --> 00:09:34.088

Aluminum makes up about 30% of the cost of a window.

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00:09:34.488 --> 00:09:36.248

You've got glass and fabrication as part of it.

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00:09:36.748 --> 00:09:37.048

Yep.

201

00:09:37.068 --> 00:09:41.018

And trying to pass becomes very difficult for our customers in those

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00:09:41.068 --> 00:09:44.548

circumstances to pass those cost increases through.

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00:09:44.588 --> 00:09:48.217

So they look to us to try and

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00:09:48.248 --> 00:09:50.008

support them, which we do as best we can.

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00:09:50.348 --> 00:09:50.568

Mm.

206

00:09:51.068 --> 00:09:55.018

But when we've got the added cost impacts of fuel costs going

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00:09:55.028 --> 00:09:58.828

through the roof, adding that to our cost base as well, it just

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00:09:58.868 --> 00:10:02.128

makes it challenging for all of us in that particular supply chain.

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00:10:02.168 --> 00:10:02.408

Yeah.

210

00:10:02.428 --> 00:10:05.968

It's not impossible, but there is just certain parts of that market where it's very

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00:10:06.008 --> 00:10:09.968

difficult where builders have got fixed price contracts, our customers have

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00:10:09.988 --> 00:10:12.128

got, to a degree, fixed price contracts.

213

00:10:12.608 --> 00:10:12.748

Mm.

214

00:10:14.368 --> 00:10:15.988

It becomes challenging.

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00:10:17.208 --> 00:10:20.048

It's going to sound a little bit harsh, but if customers

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00:10:20.108 --> 00:10:23.888

have operated under a business model with

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00:10:24.668 --> 00:10:28.448

very little flexibility, I guess the strategic

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00:10:29.468 --> 00:10:32.008

thinking for you guys is it's just like, well, you

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00:10:33.008 --> 00:10:36.728

might have capacity to instantly pay it on, but it's probably better to

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00:10:36.808 --> 00:10:39.528

work with them to get something rather than to force them into

221

00:10:40.228 --> 00:10:43.668

insolvency and then get nothing. Is that kind of where you sort of sit?

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00:10:43.968 --> 00:10:47.048

Yeah. Probably not insolvency because most of these window fabricators are

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00:10:47.488 --> 00:10:49.488

reasonably profitable businesses, but certainly-

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00:10:49.568 --> 00:10:49.578

Okay

225

00:10:49.578 --> 00:10:53.368

... we do work with them. We're long-term partners with

226

00:10:53.408 --> 00:10:53.588

them.

227

00:10:54.888 --> 00:10:57.708

And I guess the way of explaining it to them, well,

228

00:10:57.828 --> 00:11:01.248

just getting aluminum at the moment is difficult.

229

00:11:01.788 --> 00:11:01.908

Yeah.

230

00:11:02.068 --> 00:11:05.628

We're actually having to pay, as we always do, the world price for it.

231

00:11:05.688 --> 00:11:07.568

So if you want aluminum-

232

00:11:08.088 --> 00:11:08.188

Yep

233

00:11:08.948 --> 00:11:10.188

... in this world shortage-

234

00:11:10.948 --> 00:11:11.138

Mm

235

00:11:11.138 --> 00:11:13.318

... there's a cost to pay.

236

00:11:13.888 --> 00:11:13.978

Yeah.

237

00:11:13.978 --> 00:11:17.868

And we're all working towards minimizing that, and we all take a little

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00:11:17.888 --> 00:11:19.328

bit of pain on the way.

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00:11:19.338 --> 00:11:19.338

Yeah.

240

00:11:19.388 --> 00:11:22.728

So yeah, look, we work with it. It's not easy, but we just find a way

241

00:11:22.788 --> 00:11:23.588

through.

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00:11:23.648 --> 00:11:27.548

Yeah. Does it impact your stockpiling

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00:11:27.568 --> 00:11:31.328

or inventory kind of management of things?

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00:11:31.528 --> 00:11:35.378

Or do you and the board put

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00:11:35.428 --> 00:11:36.888

this up as one of those

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00:11:37.868 --> 00:11:41.588

almost, not technically, but almost like a black swan kind of thing that's

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00:11:41.648 --> 00:11:43.568

not really in and of itself worth

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00:11:44.368 --> 00:11:47.578

radically altering how you manage those kinds of things?

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00:11:48.048 --> 00:11:51.308

Or is it something that as the world becomes more uncertain, that you do have to

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00:11:51.548 --> 00:11:52.588

think about

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00:11:54.168 --> 00:11:58.088

bulking up those stockpiles or inventory, or maybe there's other things that you

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00:11:58.128 --> 00:12:00.388

can do about it, but yeah. How do you

253

00:12:02.708 --> 00:12:06.088

position the business to be more resilient to these kinds of things?

254

00:12:07.872 --> 00:12:11.272

Look, it's a difficult balance. Carrying too much inventory,

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00:12:11.352 --> 00:12:14.312

that uses up a lot of working capital.

256

00:12:14.372 --> 00:12:15.712

So we typically run-

257

00:12:15.812 --> 00:12:15.932

Yeah

258

00:12:16.012 --> 00:12:19.652

... probably only six weeks stock on our aluminum raw

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00:12:19.732 --> 00:12:23.342

material. We do carry around 90 days stock in our

260

00:12:23.352 --> 00:12:24.632

distribution warehouses.

261

00:12:25.022 --> 00:12:25.022

Mm.

262

00:12:25.032 --> 00:12:28.472

But these customers we're talking about here are buying

263

00:12:28.812 --> 00:12:30.252

directly ex our factories.

264

00:12:31.692 --> 00:12:31.932

And our

265

00:12:32.772 --> 00:12:33.732

margins are slim,

266

00:12:34.532 --> 00:12:38.182

our pricing mechanisms are tied to the aluminum metal

267

00:12:38.312 --> 00:12:38.672

price-

268

00:12:38.792 --> 00:12:39.592

Mm

269

00:12:39.732 --> 00:12:43.692

... and we have to pass those on. It's just that we

270

00:12:43.712 --> 00:12:47.592

have a bit of grace in terms of maybe a month or two where we can lag it a bit

271

00:12:47.652 --> 00:12:49.012

to sheer some of the pain.

272

00:12:49.552 --> 00:12:49.562

Mm.

273

00:12:49.612 --> 00:12:53.412

But we really can't carry months and

274

00:12:53.472 --> 00:12:56.712

months worth of raw material just in case there might be an issue, because

275

00:12:57.912 --> 00:13:01.232

we carry months and months worth of stock and all of a sudden the price collapses,

276

00:13:01.272 --> 00:13:01.621

which it could.

277

00:13:01.652 --> 00:13:01.992

Yeah.

278

00:13:03.852 --> 00:13:06.452

That's a big loss we're going to take. So no, we don't do that.

279

00:13:06.552 --> 00:13:09.192

Look, this is something that we've been through.

280

00:13:09.232 --> 00:13:10.352

I've been through multiple

281

00:13:11.712 --> 00:13:15.402

housing cycles in the past. We've been through a bloody pandemic, and now we've

282

00:13:15.432 --> 00:13:18.012

gone through a war. So I can tick all of those boxes and- ...

283

00:13:18.032 --> 00:13:20.532

we just find a way through. And fortunately,

284

00:13:21.372 --> 00:13:21.852

for

285

00:13:22.772 --> 00:13:26.232

capital, our employees, and our shareholders, is that we are in a

286

00:13:26.812 --> 00:13:28.092

strong financial position.

287

00:13:28.132 --> 00:13:28.312

Yeah.

288

00:13:28.532 --> 00:13:31.711

I've been with the business now 13 years, which is a bloody long time.

289

00:13:32.192 --> 00:13:36.052

And we've gone from being quite highly in debt to certainly over the

290

00:13:36.092 --> 00:13:39.492

last five or six years running cash positive-

291

00:13:40.332 --> 00:13:40.412

Yep

292

00:13:40.492 --> 00:13:42.612

... at balance dates and through the year.

293

00:13:43.272 --> 00:13:47.172

And we're really focused on de-risking the business.

294

00:13:47.392 --> 00:13:48.352

And times like this,

295

00:13:49.372 --> 00:13:53.352

it does enable us to carry a bit more inventory and to maybe move things from

296

00:13:53.392 --> 00:13:54.512

one month to another-

297

00:13:55.212 --> 00:13:55.732

Mm

298

00:13:55.752 --> 00:13:56.792

... and help our customers out.

299

00:13:57.912 --> 00:14:00.192

So I think we're in a good space.

300

00:14:01.292 --> 00:14:03.992

Yeah. You'll never get any criticism from me for having

301

00:14:05.932 --> 00:14:08.552

what some people might term a lazy balance sheet.

302

00:14:08.852 --> 00:14:11.322

I think that was really one of the real wake-up calls with COVID.

303

00:14:11.352 --> 00:14:12.962

There was a few, but this

304

00:14:14.852 --> 00:14:18.711

hyper operational efficiency is great from a

305

00:14:19.912 --> 00:14:23.392

certain perspective, but it's not great from an anti-fragile

306

00:14:23.412 --> 00:14:27.332

perspective. And it's one of those things that you don't know what you

307

00:14:27.372 --> 00:14:29.892

need until you need it, right? And

308

00:14:30.732 --> 00:14:32.732

yeah, more of a comment than a question.

309

00:14:33.012 --> 00:14:36.812

Does it impact things like a hedging strategy?

310

00:14:37.092 --> 00:14:39.732

Because you've also got FX and these kinds of things to deal with.

311

00:14:39.772 --> 00:14:42.232

Or how do you approach that angle?

312

00:14:43.152 --> 00:14:46.852

Yeah. Look, we don't hedge the aluminum price

313

00:14:46.892 --> 00:14:50.832

itself because we do have the ability to, all of our large

314

00:14:50.892 --> 00:14:54.792

customer contracts, which represent over 60% of our volume, are back

315

00:14:54.872 --> 00:14:58.732

to back the LME. Now, we do import

316

00:15:00.632 --> 00:15:01.092

billet.

317

00:15:01.382 --> 00:15:01.382

Yeah.

318

00:15:01.432 --> 00:15:05.012

Around 25% of our billet

319

00:15:05.392 --> 00:15:07.732

is imported. The other 75% is local

320

00:15:08.832 --> 00:15:12.712

smelters. But the 25% we import, a large amount of that does

321

00:15:12.792 --> 00:15:14.412

come from the Middle East, and we've had to

322

00:15:16.232 --> 00:15:19.632

scramble to find replacement supply-

323

00:15:20.302 --> 00:15:20.302

Mm

324

00:15:20.302 --> 00:15:23.912

... which we've been able to do both locally, through Australia and New Zealand

325

00:15:24.032 --> 00:15:27.912

smelters, and also we've also got a long-term relationship with

326

00:15:28.012 --> 00:15:31.992

a supplier out of India. So we've been able to scramble to replace that volume,

327

00:15:32.372 --> 00:15:34.132

which is good because

328

00:15:35.672 --> 00:15:36.392

we don't want to run out.

329

00:15:37.112 --> 00:15:37.612

Mm.

330

00:15:37.632 --> 00:15:37.832

But

331

00:15:39.212 --> 00:15:43.052

the only hedging we really do is on the currency on our imports.

332

00:15:43.192 --> 00:15:43.332

Yeah.

333

00:15:43.372 --> 00:15:46.992

We don't actually hedge the aluminum price because we do have a natural

334

00:15:47.052 --> 00:15:50.812

ability to pass those costs on in our

335

00:15:50.832 --> 00:15:51.872

pricing structure.

336

00:15:52.932 --> 00:15:56.262

You mentioned the local smelters. They've also been getting a bit of headlines too.

337

00:15:56.281 --> 00:15:56.281

Yeah.

338

00:15:56.632 --> 00:16:00.312

Every now and again. It's a tough game, and they're

339

00:16:00.352 --> 00:16:04.112

up against very low-cost international

340

00:16:04.392 --> 00:16:07.312

competitors. I know we touched on that last time.

341

00:16:07.412 --> 00:16:07.792

Is the

342

00:16:09.512 --> 00:16:11.972

Australian smelting industry in,

343

00:16:12.792 --> 00:16:16.452

I won't say good shape, but in sufficient shape from your perspective?

344

00:16:18.152 --> 00:16:21.772

Yes. Well, the big challenge is the energy transition for the smelters.

345

00:16:21.952 --> 00:16:25.751

As the country is heading down a path of

346

00:16:26.571 --> 00:16:30.492

emissions reduction targets, 2030 and 2050,

347

00:16:30.572 --> 00:16:32.092

those smelters are huge energy...

348

00:16:32.132 --> 00:16:33.832

Well, they're the biggest energy consumers-

349

00:16:34.192 --> 00:16:34.202

Yeah

350

00:16:34.202 --> 00:16:35.342

... in the country. Now,

351

00:16:36.412 --> 00:16:39.632

it's not their fault that the world's gone green and

352

00:16:40.612 --> 00:16:44.532

their business proposition based on very low-cost energy supply when they

353

00:16:44.552 --> 00:16:48.192

invested 25, 30 years ago, that the rug's been pulled out of them, and

354

00:16:48.632 --> 00:16:49.472

all of a sudden they

355

00:16:50.932 --> 00:16:51.312

need

356

00:16:52.472 --> 00:16:54.082

electricity 24/7-

357

00:16:54.552 --> 00:16:54.562

Mm

358

00:16:54.562 --> 00:16:57.792

... uninterrupted supply, otherwise you don't have a smelter.

359

00:16:57.832 --> 00:16:58.602

They don't operate-

360

00:16:58.652 --> 00:16:58.662

Yeah

361

00:16:58.662 --> 00:16:59.792

... and you don't rebuild them.

362

00:17:00.832 --> 00:17:00.932

Yeah.

363

00:17:02.792 --> 00:17:05.833

So they're faced with a tripling of cost of energy.

364

00:17:05.873 --> 00:17:07.853

They can't get an energy contract.

365

00:17:07.912 --> 00:17:07.962

Mm.

366

00:17:08.392 --> 00:17:12.232

Is that the smelter's problem? Well, I guess it is because you don't have a

367

00:17:12.272 --> 00:17:12.613

business.

368

00:17:13.652 --> 00:17:17.312

But these are big businesses. They are one of the

369

00:17:17.412 --> 00:17:20.633

largest export earners outside of

370

00:17:21.272 --> 00:17:22.662

digging product out of the ground.

371

00:17:23.722 --> 00:17:23.722

Mm.

372

00:17:23.732 --> 00:17:27.212

But they're one of the largest, if not the largest,

373

00:17:27.272 --> 00:17:30.452

manufacturing export earner for the country.

374

00:17:31.042 --> 00:17:31.042

Mm.

375

00:17:31.052 --> 00:17:33.572

And the rug's been pulled out of them because they can't get an electricity

376

00:17:33.612 --> 00:17:37.332

contract. So whose problem is that? It's not just the smelter's problem.

377

00:17:37.362 --> 00:17:37.362

Mm.

378

00:17:37.392 --> 00:17:40.332

It's the country's problem and it's the government's problem.

379

00:17:40.952 --> 00:17:43.572

Fortunately, common sense has prevailed,

380

00:17:45.472 --> 00:17:49.432

and that the government and the owners of the smelters are working together

381

00:17:49.552 --> 00:17:52.752

to achieve an outcome that is going to

382

00:17:53.832 --> 00:17:57.172

get them to a renewable energy platform-

383

00:17:57.512 --> 00:17:57.532

Mm

384

00:17:57.612 --> 00:17:59.352

... into the future, but have

385

00:18:00.232 --> 00:18:04.092

a way to get there in terms of subsidizing electricity prices

386

00:18:04.152 --> 00:18:06.552

into those smelters in the meantime.

387

00:18:08.332 --> 00:18:08.552

Okay.

388

00:18:08.792 --> 00:18:12.636

One of the big things is right today-With the

389

00:18:12.676 --> 00:18:14.306

aluminium price being what it is-

390

00:18:14.856 --> 00:18:15.176

Mm

391

00:18:15.256 --> 00:18:17.116

... those smelters are doing very, very well.

392

00:18:18.256 --> 00:18:18.436

Right.

393

00:18:19.036 --> 00:18:19.156

So,

394

00:18:19.996 --> 00:18:23.856

I think that there needs to be an understanding, or I'm not involved in any of

395

00:18:23.896 --> 00:18:25.016

these discussions, we're just a-

396

00:18:25.456 --> 00:18:25.596

Yeah

397

00:18:25.696 --> 00:18:27.736

... we're downstream from the smelters, but

398

00:18:29.376 --> 00:18:33.316

linking support to where the aluminium price is would

399

00:18:33.356 --> 00:18:36.856

probably be a prudent thing for the government to do, otherwise

400

00:18:37.296 --> 00:18:39.816

those smelter owners will be making extraordinary profits.

401

00:18:40.976 --> 00:18:41.836

Oh, we can't have that.

402

00:18:41.956 --> 00:18:45.236

We can't have that. So, I'm sure that's all

403

00:18:45.856 --> 00:18:47.156

people above my pay grade-

404

00:18:47.576 --> 00:18:47.736

Yeah

405

00:18:47.956 --> 00:18:49.116

... have got that in hand. But

406

00:18:50.036 --> 00:18:51.936

certainly, the big employers,

407

00:18:53.256 --> 00:18:55.376

Australia Aluminium is one of the

408

00:18:58.476 --> 00:19:02.396

industries in Australia where we've got the bauxite, we mine the

409

00:19:02.436 --> 00:19:04.196

bauxite, we turn it into alumina-

410

00:19:04.736 --> 00:19:04.896

Yeah

411

00:19:04.906 --> 00:19:07.416

... which we obviously export as well, but we've also got the

412

00:19:08.636 --> 00:19:12.586

smelters, and then we've got the downstream aluminium producers like

413

00:19:12.856 --> 00:19:13.376

ourselves.

414

00:19:13.836 --> 00:19:13.866

Yeah.

415

00:19:14.596 --> 00:19:17.936

So we've got a fully integrated supply chain in Australia, and it'd be very

416

00:19:17.976 --> 00:19:20.036

sad to see that go-

417

00:19:20.496 --> 00:19:20.506

Mm

418

00:19:20.536 --> 00:19:22.676

... and die on the cross of climate change, to be fair.

419

00:19:23.206 --> 00:19:23.206

Yeah.

420

00:19:23.236 --> 00:19:26.336

So I think logic has finally prevailed, and

421

00:19:27.296 --> 00:19:31.176

working the smelters or the smelter owners working, particularly Rio

422

00:19:31.186 --> 00:19:34.916

Tinto, working together with the government, both locally in

423

00:19:34.996 --> 00:19:38.756

Queensland and locally here in New South Wales with smelter here, and the federal

424

00:19:38.816 --> 00:19:41.056

government to find a way through

425

00:19:42.236 --> 00:19:46.146

this otherwise it wouldn't be a good outcome for Australia should those

426

00:19:46.156 --> 00:19:49.256

smelters close. All that's going to happen is we'd have to import

427

00:19:49.296 --> 00:19:53.036

billet out of other countries, and what we're doing is we'll be

428

00:19:53.076 --> 00:19:54.576

importing carbon emissions instead of

429

00:19:55.476 --> 00:19:57.216

producing them here. So they're just-

430

00:19:57.256 --> 00:19:59.016

But it's not on our books though, Tony.

431

00:19:59.216 --> 00:20:03.096

No, they won't. It all will, because we'll have to report Scope 3

432

00:20:03.136 --> 00:20:04.416

emissions, and it will be on our books.

433

00:20:04.496 --> 00:20:05.716

Yeah, it's so true, true, true.

434

00:20:05.726 --> 00:20:09.416

It might not physically be emitted out of this country, but from a world

435

00:20:09.476 --> 00:20:10.066

perspective-

436

00:20:10.416 --> 00:20:10.536

Yeah

437

00:20:10.556 --> 00:20:13.596

... we won't see any change in climate conditions because we've closed our

438

00:20:13.656 --> 00:20:14.696

smelters, I can assure you of that.

439

00:20:14.796 --> 00:20:15.156

Yeah.

440

00:20:15.836 --> 00:20:19.596

But I guess we're not here to have a climate

441

00:20:19.676 --> 00:20:22.276

argument, but look, these are big businesses.

442

00:20:22.336 --> 00:20:22.835

They're big

443

00:20:24.216 --> 00:20:26.216

export earners for Australia.

444

00:20:27.116 --> 00:20:30.756

The whole industry is, and we've also got downstream extrusion which come,

445

00:20:31.136 --> 00:20:35.076

and window fabrication and metal fabrication on the back of that

446

00:20:35.156 --> 00:20:36.056

as well. So it's a

447

00:20:37.056 --> 00:20:40.036

strong industry for Australia, and certainly one that we wouldn't want to see any

448

00:20:40.136 --> 00:20:41.696

part of that supply chain

449

00:20:42.576 --> 00:20:46.436

be dismantled. And I guess we talk about sovereign capability and

450

00:20:47.296 --> 00:20:49.356

being able to produce boats and

451

00:20:50.816 --> 00:20:52.276

build things, and

452

00:20:54.696 --> 00:20:58.666

aluminium is a key component to I guess the sovereign capability of the nation as

453

00:20:58.696 --> 00:21:01.896

well. So there's a big argument or discussion around all of that, and I think where

454

00:21:01.936 --> 00:21:04.456

it's all landing is in the right place.

455

00:21:05.556 --> 00:21:07.236

Yeah. I suspect there's a lot of

456

00:21:09.136 --> 00:21:12.745

similar considerations from the gas industry, and as you say, without getting into

457

00:21:12.776 --> 00:21:13.016

a

458

00:21:14.456 --> 00:21:15.236

climate debate,

459

00:21:16.196 --> 00:21:17.006

it strikes me that what

460

00:21:17.856 --> 00:21:20.736

big business demands more than anything is just certainty.

461

00:21:20.896 --> 00:21:23.596

It's like, whatever you're going to do, just be clear on it.

462

00:21:24.176 --> 00:21:28.086

Be clear and consistent on it, because then, as large capital allocators

463

00:21:28.096 --> 00:21:31.636

with very long project timelines, we can make an informed decision.

464

00:21:31.736 --> 00:21:35.556

And it's the moving of the goalposts and the flipping and the flopping

465

00:21:35.576 --> 00:21:37.596

that makes life pretty hard.

466

00:21:38.096 --> 00:21:38.596

Yeah.

467

00:21:40.096 --> 00:21:41.336

Speaking of the government,

468

00:21:42.296 --> 00:21:45.836

what's the practical so what of the Made in

469

00:21:45.876 --> 00:21:48.976

Australia campaign? Is this a

470

00:21:49.216 --> 00:21:50.016

feel-good

471

00:21:51.056 --> 00:21:54.736

political exercise? Or when push comes to shove, what does it

472

00:21:54.816 --> 00:21:57.676

actually mean for a business like Caprol?

473

00:21:58.256 --> 00:22:02.196

Yeah, broad question. What's the

474

00:22:02.216 --> 00:22:03.196

practical upshot of it?

475

00:22:04.776 --> 00:22:07.336

Well, the practical upshot is

476

00:22:07.716 --> 00:22:11.196

encouraging consumers

477

00:22:11.296 --> 00:22:15.036

or manufacturers to use Australian

478

00:22:15.046 --> 00:22:15.965

products and

479

00:22:16.776 --> 00:22:17.666

keep people employed.

480

00:22:18.296 --> 00:22:18.686

Mm-hmm.

481

00:22:18.916 --> 00:22:22.166

Not everyone can go to university and get high-paying university jobs,

482

00:22:22.256 --> 00:22:26.136

but what manufacturing in Australia provides

483

00:22:26.196 --> 00:22:30.036

is a pathway to well-paid

484

00:22:30.076 --> 00:22:31.246

manufacturing jobs-

485

00:22:32.116 --> 00:22:32.126

Mm

486

00:22:32.126 --> 00:22:34.095

... for those of us that aren't fortunate enough to

487

00:22:34.916 --> 00:22:36.996

go to university and get a tertiary education.

488

00:22:37.046 --> 00:22:40.716

So Caprol itself employs

489

00:22:40.956 --> 00:22:44.816

1,100 people. We're just one in our industry, one manufacturer

490

00:22:44.856 --> 00:22:48.396

here, and there are thousands and thousands of manufacturing businesses out there

491

00:22:48.456 --> 00:22:48.616

that

492

00:22:49.516 --> 00:22:52.516

underpin the economy and keep people employed.

493

00:22:52.876 --> 00:22:55.076

We're not really looking for a leg up.

494

00:22:55.136 --> 00:22:58.256

We understand we're in a high

495

00:22:58.996 --> 00:23:00.306

wage environment in

496

00:23:01.856 --> 00:23:02.236

Australia.

497

00:23:04.696 --> 00:23:04.836

We

498

00:23:06.356 --> 00:23:10.316

continually look to ways to automate our business and to upskill

499

00:23:10.356 --> 00:23:11.036

our operators,

500

00:23:13.216 --> 00:23:17.146

so that we can compete internationally and also pay people well, and we're

501

00:23:17.196 --> 00:23:17.356

just

502

00:23:18.176 --> 00:23:22.116

an example of thousands of operators and manufacturing businesses out there doing

503

00:23:22.416 --> 00:23:25.776

that exact same thing. But what it does do is it does provide

504

00:23:26.856 --> 00:23:30.786

capability within country. It does

505

00:23:32.556 --> 00:23:34.856

shape employment, particularly in regional areas.

506

00:23:34.896 --> 00:23:38.736

A number of factories are based and distribution centers based regionally.

507

00:23:39.956 --> 00:23:43.636

And that we're part of an overall aluminium supply chain in this

508

00:23:43.676 --> 00:23:46.516

country. So for us, it's important.

509

00:23:47.776 --> 00:23:51.436

What we would like to see out of it is it certainly a fair

510

00:23:51.556 --> 00:23:55.476

go in terms of supplying into particularly government or

511

00:23:55.556 --> 00:23:57.796

government-sponsored type projects, that

512

00:23:58.616 --> 00:24:02.516

not everything comes down to the lowest possible cost, and we look at what

513

00:24:02.576 --> 00:24:06.556

is the net economic cost to the country of importing versus supporting

514

00:24:06.596 --> 00:24:07.516

local manufacturing-

515

00:24:08.036 --> 00:24:08.246

Mm

516

00:24:08.436 --> 00:24:09.076

... in those sort of

517

00:24:10.376 --> 00:24:14.276

purchasing decisions. But look, we proudly put

518

00:24:14.316 --> 00:24:18.248

it all over our products, whether it-I think that

519

00:24:18.328 --> 00:24:20.508

certainly post-COVID, there was certainly a surge in

520

00:24:22.608 --> 00:24:26.188

people wanting to support local manufacturer by necessity to a fair degree.

521

00:24:26.948 --> 00:24:27.378

Mm-hmm.

522

00:24:27.408 --> 00:24:30.648

I think that this campaign is just a timely reminder

523

00:24:31.368 --> 00:24:35.288

that there are a lot of jobs generated in this

524

00:24:35.348 --> 00:24:36.967

country by manufacturing.

525

00:24:37.568 --> 00:24:37.908

Yeah.

526

00:24:37.948 --> 00:24:38.608

And to be fair,

527

00:24:40.568 --> 00:24:44.247

20 years ago or 30 years ago, manufacturing was a lot bigger in this country.

528

00:24:44.748 --> 00:24:47.808

We had a car industry, a lot of engineering jobs.

529

00:24:49.788 --> 00:24:52.858

But with the Australian dollar being quite strong and

530

00:24:53.408 --> 00:24:57.048

wages going up in Australia, it's become

531

00:24:57.068 --> 00:24:58.538

difficult to compete internationally.

532

00:24:58.588 --> 00:25:02.188

But those businesses that have got through the dollar at parity have got

533

00:25:02.668 --> 00:25:06.588

through and restructured their businesses and made them more efficient-

534

00:25:07.348 --> 00:25:07.417

Mm-hmm

535

00:25:07.428 --> 00:25:09.008

... to be internationally competitive.

536

00:25:10.428 --> 00:25:10.588

We

537

00:25:11.888 --> 00:25:15.708

believe we do have a right to still exist, and that we're important to the

538

00:25:15.748 --> 00:25:16.528

Australian economy.

539

00:25:17.668 --> 00:25:19.048

Yeah. It feels like the

540

00:25:21.468 --> 00:25:24.128

productivity boost with things like automation are the

541

00:25:25.828 --> 00:25:29.708

main lever, I suppose, you can pull and, oh gosh,

542

00:25:29.788 --> 00:25:31.528

things are really happening fast on that front.

543

00:25:31.558 --> 00:25:35.048

It's pretty cool stuff, and it sort of dovetails with some of the new AI things and

544

00:25:35.108 --> 00:25:39.028

rah. But without getting too propeller-heady, with all of

545

00:25:39.068 --> 00:25:41.948

that kind of stuff, it still does take a bunch of investment

546

00:25:42.468 --> 00:25:46.088

upfront. How are you guys thinking about all of that,

547

00:25:47.588 --> 00:25:50.748

and where do you sit at the moment in terms of

548

00:25:50.788 --> 00:25:54.458

capacity and readiness and all of that?

549

00:25:54.638 --> 00:25:58.348

These are, again, long-term

550

00:25:58.748 --> 00:26:02.668

investment decisions, but is it something that Capral

551

00:26:02.708 --> 00:26:05.868

is thinking of in terms of ramping up the

552

00:26:06.728 --> 00:26:10.568

automation or just the general infrastructure around your facilities to

553

00:26:11.688 --> 00:26:12.108

give each

554

00:26:13.068 --> 00:26:15.968

worker much more flex than what they would've had historically?

555

00:26:16.428 --> 00:26:18.108

Yes, look, this is

556

00:26:19.448 --> 00:26:22.908

on our agenda, top of our agenda at the moment.

557

00:26:23.608 --> 00:26:24.448

In our plants,

558

00:26:25.308 --> 00:26:27.958

we continue to upgrade our facilities-

559

00:26:28.208 --> 00:26:28.488

Yep

560

00:26:28.608 --> 00:26:32.198

... to ensure that they run efficiently and

561

00:26:33.628 --> 00:26:37.388

competitively. So we're continuing to upgrade our extrusion

562

00:26:37.428 --> 00:26:37.768

presses.

563

00:26:38.328 --> 00:26:38.588

Yep.

564

00:26:39.408 --> 00:26:40.248

We

565

00:26:41.528 --> 00:26:43.388

have skilled operators running those presses.

566

00:26:43.408 --> 00:26:46.828

So we've got maybe four people or four to five

567

00:26:46.948 --> 00:26:50.068

people per press, per shift running those.

568

00:26:50.108 --> 00:26:51.128

They're pretty automated.

569

00:26:51.588 --> 00:26:51.778

Mm-hmm.

570

00:26:51.808 --> 00:26:55.748

But where the cost in our business really comes is

571

00:26:55.788 --> 00:26:59.728

material handling. Virtually everything we make is a six-meter length of

572

00:26:59.748 --> 00:27:02.648

aluminum extrusion, and handling that through the

573

00:27:03.428 --> 00:27:07.028

plant, through our distribution centers, and out to our customers,

574

00:27:07.508 --> 00:27:10.868

the material handling is significant.

575

00:27:11.428 --> 00:27:11.508

Right.

576

00:27:11.548 --> 00:27:13.908

So we're looking at investing, in the

577

00:27:14.928 --> 00:27:16.638

medium term, in the next two to three years-

578

00:27:17.008 --> 00:27:17.078

Mm-hmm

579

00:27:17.328 --> 00:27:18.828

... in quite sophisticated

580

00:27:19.728 --> 00:27:20.488

warehousing

581
00:27:21.328 --> 00:27:25.088
investment, warehousing process to automate the

582
00:27:25.228 --> 00:27:28.868
storage and picking and packing of those aluminum

583
00:27:28.888 --> 00:27:31.768
extrusions. That's really where our big,

584
00:27:33.588 --> 00:27:33.908
I guess,

585
00:27:35.168 --> 00:27:36.988
labor cost saving will be.

586
00:27:37.548 --> 00:27:37.657
Mm-hmm.

587
00:27:37.668 --> 00:27:40.608
And those jobs are typically at the lower paying part of the scale.

588
00:27:41.488 --> 00:27:45.008
Running the presses and the paint lines and powder coating lines are,

589
00:27:45.448 --> 00:27:45.488
you

590
00:27:46.168 --> 00:27:49.568
need

591
00:27:49.928 --> 00:27:53.398
experienced operators and trained operators to do that, and they get

592
00:27:53.428 --> 00:27:57.268
paid very well for that. But the material handling

593
00:27:57.308 --> 00:27:57.798
side of it,

594
00:27:58.708 --> 00:28:01.388

and it's difficult to get people at that end as well.

595

00:28:01.418 --> 00:28:05.388

And when we're competing with the Amazons and those big warehouses

596

00:28:05.448 --> 00:28:05.708

now-

597

00:28:06.728 --> 00:28:06.738

Mm-hmm

598

00:28:06.738 --> 00:28:06.738

...

599

00:28:07.888 --> 00:28:10.408

we're really looking at ways to automate that.

600

00:28:10.468 --> 00:28:13.608

And there's been significant developments

601

00:28:14.848 --> 00:28:18.528

over the past decade, and more particularly over the last three or four years-

602

00:28:18.657 --> 00:28:18.998

Mm-hmm

603

00:28:19.028 --> 00:28:19.448

... which are

604

00:28:21.388 --> 00:28:24.028

providing opportunities for us to make those. They're not cheap.

605

00:28:24.368 --> 00:28:27.108

We're talking tens of millions of dollars.

606

00:28:27.668 --> 00:28:27.678

Yeah.

607

00:28:27.708 --> 00:28:29.468

But the payback periods are

608
00:28:30.528 --> 00:28:31.708
well under five years.

609
00:28:33.328 --> 00:28:33.668
Yeah.

610
00:28:33.748 --> 00:28:37.448
And the other thing is that these warehousing operations have a

611
00:28:37.508 --> 00:28:40.608
significantly smaller footprint than the traditional

612
00:28:41.488 --> 00:28:43.728
warehousing requirements as well.

613
00:28:43.848 --> 00:28:47.048
So those are the things that we're looking at around automation.

614
00:28:47.108 --> 00:28:50.288
So yes, significant amount of investment's gone into our

615
00:28:52.308 --> 00:28:55.888
extrusion side and our powder coating side over the last decade.

616
00:28:56.268 --> 00:29:00.228
And over the next two to three years, we're looking at automation

617
00:29:00.308 --> 00:29:02.368
and warehousing, in particular, material.

618
00:29:02.408 --> 00:29:04.268
Yeah. That's really interesting.

619
00:29:04.488 --> 00:29:07.088
I think actually last time we chatted, I think you mentioned it,

620
00:29:08.668 --> 00:29:10.868
correct me if I'm wrong, it might've been someone else, but I think you framed

621
00:29:10.908 --> 00:29:14.608

there was a sort of a middleman myth involved with something like Capral, where

622

00:29:14.648 --> 00:29:18.528

it's like you got the smelters sort of one hand, and you got the builders

623

00:29:18.568 --> 00:29:22.468

the other hand, and you're just doing this commodified process

624

00:29:22.548 --> 00:29:26.528

there in the middle, which to an investor goes, "Well, there's not a lot of

625

00:29:26.538 --> 00:29:28.048

value captured there." But then

626

00:29:29.908 --> 00:29:33.248

you were talking about these value adds, like the powder coating, which you just

627

00:29:33.288 --> 00:29:37.158

mentioned very briefly there, and CNC machining and these

628

00:29:37.288 --> 00:29:37.998

kinds of things-

629

00:29:38.018 --> 00:29:38.728

CNC machining and routing. Yes.

630

00:29:39.068 --> 00:29:43.028

Yeah. That might be worth elaborating on and just reminding people

631

00:29:43.068 --> 00:29:46.708

on that as a component, because it's another

632

00:29:46.768 --> 00:29:47.868

way to

633

00:29:49.768 --> 00:29:52.608

enhance the economics, I guess, of the entire operation.

634

00:29:53.288 --> 00:29:56.048

Yes. Look, we've got, I think, throughout our business now, probably eight CNC

635
00:29:56.128 --> 00:29:57.088
routers. So we do a lot of

636
00:29:59.408 --> 00:30:02.348
pre-drilling and

637
00:30:03.568 --> 00:30:05.208
value adding on aluminum,

638
00:30:06.428 --> 00:30:07.768
and routing of plate-

639
00:30:08.538 --> 00:30:08.538
Yeah

640
00:30:08.548 --> 00:30:09.438
... prior to

641
00:30:10.388 --> 00:30:11.608
providing it to the fabricator.

642
00:30:13.568 --> 00:30:16.808
We're able to automate that through our processes and do it on

643
00:30:17.268 --> 00:30:21.208
quite high-tech equipment rather than have it done at job lots

644
00:30:21.288 --> 00:30:23.028
and customers having to do it themselves.

645
00:30:23.088 --> 00:30:26.408
So we've really invested a lot in the last five to six years in

646
00:30:26.688 --> 00:30:29.148
value-add equipment, particularly CNC gear and routers.

647
00:30:29.788 --> 00:30:33.608
And that just adds another string to our bow to

648
00:30:33.648 --> 00:30:37.536

help our customers-Become more cost-effective in their

649

00:30:37.556 --> 00:30:38.816

own manufacturing operations.

650

00:30:39.756 --> 00:30:40.576

Have you guys

651

00:30:41.856 --> 00:30:42.696

thought of

652

00:30:43.896 --> 00:30:46.906

being involved in more of that vertical integration?

653

00:30:46.956 --> 00:30:48.896

I was trying to look at my notes here. Was it G.

654

00:30:49.036 --> 00:30:52.546

James, one of the competitors there that tend to be a lot more top to bottom

655

00:30:52.656 --> 00:30:56.436

there? There's pros and cons with all of these kinds of

656

00:30:56.516 --> 00:30:58.936

things, but what are your thoughts in terms of

657

00:31:00.016 --> 00:31:00.856

that as a way to

658

00:31:01.896 --> 00:31:05.236

broaden things out, capture more of the market, capture more of the value add?

659

00:31:05.836 --> 00:31:09.496

Yeah, look, it's not completely off the table for us.

660

00:31:11.776 --> 00:31:12.076

But

661

00:31:13.056 --> 00:31:14.316

G. James is,

662
00:31:15.456 --> 00:31:17.956
first and foremost, a commercial

663
00:31:18.796 --> 00:31:22.616
window and glass company, which has an extrusion plant-

664
00:31:23.176 --> 00:31:23.236
Right

665
00:31:23.246 --> 00:31:25.736
... to support its window fabrication businesses.

666
00:31:26.116 --> 00:31:26.356
Right.

667
00:31:26.676 --> 00:31:29.776
Not the only one. Bradenhams, one of the largest,

668
00:31:31.016 --> 00:31:34.676
probably the next largest, window fabricator in Australia, I'd say they're top

669
00:31:34.736 --> 00:31:38.216
three, also have their own extrusion facility now to support their

670
00:31:38.256 --> 00:31:42.056
businesses. So we're in a situation where we

671
00:31:42.176 --> 00:31:44.896
supply a lot of window fabricators-

672
00:31:45.336 --> 00:31:45.436
Mm

673
00:31:45.535 --> 00:31:45.535
...

674
00:31:47.016 --> 00:31:48.856
from very large to very small,

675
00:31:49.696 --> 00:31:53.656

and they're dependent upon us.

676

00:31:53.736 --> 00:31:53.796

We

677

00:31:54.916 --> 00:31:57.796

are the largest and only national player, and

678

00:31:58.836 --> 00:31:59.076

if we

679

00:32:00.156 --> 00:32:03.696

go into window fabrication, we'll be competing against our customer base.

680

00:32:04.196 --> 00:32:04.436

Mm.

681

00:32:04.736 --> 00:32:06.446

So it's not to say we can't do it, but-

682

00:32:06.576 --> 00:32:06.716

Yeah

683

00:32:06.726 --> 00:32:07.336

... it will become

684

00:32:09.096 --> 00:32:11.976

very difficult because our customers would then look elsewhere

685

00:32:12.476 --> 00:32:16.296

for extrusion supply because we'd be effectively competing with them in the market.

686

00:32:16.936 --> 00:32:20.016

The other financial reason we don't do it is because we've still got \$200 odd

687

00:32:20.076 --> 00:32:23.916

million worth of tax losses, and once we did that, we'd be throwing

688

00:32:23.936 --> 00:32:25.236

those tax losses out the window.

689

00:32:26.176 --> 00:32:27.616

Oh, yes.

690

00:32:28.376 --> 00:32:29.396

So we have-

691

00:32:29.706 --> 00:32:29.706

Yes

692

00:32:29.706 --> 00:32:33.256

... if we went back, those tax losses were derived 15,

693

00:32:33.416 --> 00:32:35.156

16, 17 years ago when the company-

694

00:32:35.196 --> 00:32:35.976

Yep

695

00:32:35.986 --> 00:32:37.746

... was in significant financial difficulty.

696

00:32:38.236 --> 00:32:38.526

Yep.

697

00:32:38.576 --> 00:32:41.936

And we've worked through those. I think we've got about four, maybe four years

698

00:32:41.996 --> 00:32:42.656

left.

699

00:32:42.666 --> 00:32:42.666

Yep.

700

00:32:42.676 --> 00:32:44.286

Four to five years left of tax losses.

701

00:32:45.955 --> 00:32:49.936

So that's cash value for our shareholders, which we wouldn't want to

702

00:32:50.176 --> 00:32:51.435

step outside of, in

703

00:32:52.716 --> 00:32:53.396

certainly the next

704

00:32:55.136 --> 00:32:56.096

four to five years anyway.

705

00:32:56.896 --> 00:32:59.296

Yeah. No, that's such an excellent point.

706

00:32:59.416 --> 00:33:00.876

There's a couple of reasons for that.

707

00:33:01.796 --> 00:33:02.236

Yeah.

708

00:33:02.736 --> 00:33:04.836

It's something we are thinking about, yeah.

709

00:33:04.876 --> 00:33:08.196

Yeah. No, that's super interesting. You know what?

710

00:33:08.456 --> 00:33:12.405

I have a habit of leaving things too late, Tony, so I might just go, only

711

00:33:12.456 --> 00:33:16.316

because we've got so many that have come through, I'll throw some viewer questions

712

00:33:16.336 --> 00:33:17.416

at you here.

713

00:33:20.116 --> 00:33:23.516

Capital management. Given Capital's high cash balance, why only 40,

714

00:33:23.756 --> 00:33:26.836

60% of underlying earnings per share for distribution?

715

00:33:27.396 --> 00:33:30.056

What are the investments you're making with the undistributed cash?

716

00:33:31.216 --> 00:33:32.856

Yeah, look, that's a good question.

717

00:33:32.956 --> 00:33:36.626

Firstly, our high water point in cash happens to be December because

718

00:33:37.476 --> 00:33:40.676

we have big sales in October, November, December, so it's a high water.

719

00:33:40.986 --> 00:33:41.436

Because our average-

720

00:33:41.716 --> 00:33:41.726

Right

721

00:33:41.726 --> 00:33:43.956

... cash balance throughout the year is probably around about half that.

722

00:33:44.476 --> 00:33:44.716

Got you.

723

00:33:45.976 --> 00:33:49.836

And we've got LC facilities, as well, for our imported product.

724

00:33:50.356 --> 00:33:51.525

Mm-hmm.

725

00:33:51.556 --> 00:33:51.976

But we do

726

00:33:55.316 --> 00:33:55.796

run high

727

00:33:56.996 --> 00:33:58.016

net cash because we

728

00:33:59.516 --> 00:34:03.256

are on the acquisition trail. Obviously, we need to buy things in the same

729

00:34:03.296 --> 00:34:04.156

business, so we've made-

730

00:34:04.756 --> 00:34:04.876

Yep

731

00:34:05.096 --> 00:34:08.616

... four to five smaller acquisitions over the past three or four years.

732

00:34:09.056 --> 00:34:12.056

We're continuing to look to do those, and there are some

733

00:34:12.437 --> 00:34:16.336

medium-sized ones, prospects, going forward in the next couple of years.

734

00:34:16.397 --> 00:34:19.506

Sorry to interrupt, Tony. Is that more in the trade distribution side of things?

735

00:34:19.516 --> 00:34:20.556

Trade distribution side.

736

00:34:20.596 --> 00:34:20.656

Yep.

737

00:34:20.696 --> 00:34:23.996

Yes. We're not looking at making

738

00:34:24.736 --> 00:34:28.156

any acquisitions in extrusion because we've got ample

739

00:34:28.196 --> 00:34:30.216

spare capacity there.

740

00:34:30.536 --> 00:34:30.546

Yep.

741

00:34:30.556 --> 00:34:33.596

It's more about locking up downstream distribution.

742

00:34:34.076 --> 00:34:34.127

Got you.

743

00:34:34.156 --> 00:34:37.076

So those are the acquisitions we've made, and they've been

744

00:34:37.756 --> 00:34:38.696

successful for us-

745

00:34:39.296 --> 00:34:39.316

Mm

746

00:34:39.377 --> 00:34:42.736

... not only helping us grow our distribution business, but also

747

00:34:42.816 --> 00:34:45.696

providing some volume for our plants as well.

748

00:34:45.736 --> 00:34:45.836

Yeah.

749

00:34:45.877 --> 00:34:49.496

So we are continually looking at acquisitions, and also some of these major capital

750

00:34:49.516 --> 00:34:50.147

projects

751

00:34:50.996 --> 00:34:53.397

that I just spoke about in terms of automation.

752

00:34:54.756 --> 00:34:56.495

We're looking to invest

753

00:34:56.957 --> 00:35:00.876

above normal CapEx spend. We

754

00:35:00.896 --> 00:35:01.196

normally-

755

00:35:01.256 --> 00:35:01.276

Mm

756

00:35:01.286 --> 00:35:01.955

... spend around

757

00:35:02.876 --> 00:35:06.816

probably seven million a year-ish on CapEx.

758

00:35:07.296 --> 00:35:07.456

Mm.

759

00:35:08.016 --> 00:35:10.536

But going forward, these sort of warehouse automations,

760

00:35:10.596 --> 00:35:13.716

they're more in the sort of the \$20 million

761

00:35:14.616 --> 00:35:14.796

type.

762

00:35:14.816 --> 00:35:15.076

Yep.

763

00:35:15.776 --> 00:35:19.676

So they're more larger CapEx investments of which we're evaluating at the

764

00:35:19.696 --> 00:35:20.116

moment.

765

00:35:20.536 --> 00:35:20.756

Mm-hmm.

766

00:35:20.856 --> 00:35:24.776

That's why we're only paying out

767

00:35:24.796 --> 00:35:26.196

40 to 60 of it. But we've-

768

00:35:26.296 --> 00:35:26.416

Yep

769

00:35:26.616 --> 00:35:29.116

... our return to shareholders

770

00:35:30.036 --> 00:35:33.116

has been pretty consistent over the past five, six years.

771

00:35:33.776 --> 00:35:36.296

Yep. I don't think you get much pushback from us here.

772

00:35:36.356 --> 00:35:39.476

I think everyone understands you spend money to make money, and what'd you say?

773

00:35:39.556 --> 00:35:42.096

Five-year payback periods? That sounds like-

774

00:35:42.176 --> 00:35:42.186

Yeah

775

00:35:42.186 --> 00:35:43.456

... a pretty decent use of cash.

776

00:35:43.796 --> 00:35:46.356

But it's a big capital sum.

777

00:35:46.416 --> 00:35:46.696

Yeah.

778

00:35:46.976 --> 00:35:50.966

And look, I think the other thing we would dearly like to do as the opportunities

779

00:35:51.056 --> 00:35:52.656

come up, is to buy back our buildings.

780

00:35:52.696 --> 00:35:56.436

So 15, 17 years ago, we had to sell all the

781

00:35:56.476 --> 00:35:57.636

properties to pay the bank.

782

00:35:58.096 --> 00:35:59.416

Oh, yeah.

783

00:36:00.156 --> 00:36:00.616

But if we're able to

784

00:36:01.896 --> 00:36:05.576

acquire our main manufacturing sites again, that's

785

00:36:05.616 --> 00:36:07.176

something we would also consider.

786

00:36:07.796 --> 00:36:09.556

Now, bearing in mind that we'd

787

00:36:11.436 --> 00:36:14.696

be able to isolate the funding for that separately-

788

00:36:14.756 --> 00:36:14.916

Yep

789

00:36:14.926 --> 00:36:18.076

... but it will require a bit of equity to go into those.

790

00:36:18.196 --> 00:36:19.816

So those are the things we're looking at doing.

791

00:36:19.856 --> 00:36:21.896

Everything's prudent and well thought out.

792

00:36:22.376 --> 00:36:22.796

Yep.

793

00:36:22.896 --> 00:36:23.056

So

794

00:36:25.136 --> 00:36:28.936

Capital Management is one of the top things on our

795

00:36:28.976 --> 00:36:29.296

agenda-

796

00:36:29.856 --> 00:36:29.906

Yep

797

00:36:29.916 --> 00:36:33.256

... which is why we're also embarking upon the share buyback-

798

00:36:33.956 --> 00:36:34.236

Yes

799

00:36:34.436 --> 00:36:38.186

... plan as well, which is a cost-effective way, or, sorry, a reasonably

800

00:36:38.236 --> 00:36:42.036

effective way, tax effective way, to get returns back to shareholders.

801

00:36:42.548 --> 00:36:45.728

It's almost a tautology of sorts, but

802

00:36:45.788 --> 00:36:49.728

it pretty much reflects what the board thinks of the current share price, I

803

00:36:49.808 --> 00:36:50.288

suppose.

804

00:36:50.768 --> 00:36:50.928

Yes.

805

00:36:51.008 --> 00:36:51.428

Yeah.

806

00:36:52.428 --> 00:36:53.168

I'll leave it at that.

807

00:36:54.548 --> 00:36:58.108

Actually, I've got to pick into the distribution side of things.

808

00:36:58.168 --> 00:37:02.088

Help us understand where the advantage

809

00:37:02.188 --> 00:37:06.128

is there and what that looks like as an opportunity set for acquisitions.

810

00:37:06.708 --> 00:37:10.608

I think from memory, it's a fairly fragmented kind of market, and the

811

00:37:10.648 --> 00:37:13.228

advantage being obviously you own the distributor, then they can

812

00:37:14.288 --> 00:37:17.668

choose to source from you, and you have more of a captive

813

00:37:17.788 --> 00:37:20.548

customer there and therefore more throughput.

814

00:37:20.888 --> 00:37:21.068

That's

815

00:37:22.508 --> 00:37:24.568

massively oversimplified, but am I on the right

816

00:37:25.468 --> 00:37:25.888

path there?

817

00:37:26.188 --> 00:37:27.628

I think you've simplified it perfectly.

818

00:37:27.688 --> 00:37:30.798

That's certainly where our

819

00:37:31.468 --> 00:37:33.448

objective is, is not only...

820

00:37:34.268 --> 00:37:38.208

I think that when I joined the business, we were looked at really as an extruder,

821

00:37:38.428 --> 00:37:39.948

a manufacturing business, which is-

822

00:37:39.988 --> 00:37:40.088

Yep

823

00:37:40.348 --> 00:37:42.188

... obviously still at the core of what we do.

824

00:37:42.628 --> 00:37:45.588

But we've grown our distribution business significantly.

825

00:37:46.228 --> 00:37:46.368

Yeah.

826

00:37:46.448 --> 00:37:48.008

Not only does that give us

827

00:37:48.868 --> 00:37:49.568

a

828

00:37:50.448 --> 00:37:54.208

more consistent earnings profile because when you're an

829

00:37:54.228 --> 00:37:57.428

extruder, you're a manufacturer, you've got a lot of fixed costs, and as the

830

00:37:57.528 --> 00:38:00.328

housing cycle goes up and down, those fixed costs impact.

831

00:38:01.068 --> 00:38:04.418

But the distribution business or distribution of aluminum-

832

00:38:04.678 --> 00:38:04.828

Mm

833

00:38:05.728 --> 00:38:07.598

... in industrial markets in particular,

834

00:38:09.028 --> 00:38:09.248

is

835

00:38:10.088 --> 00:38:13.488

not prone to the ups and the cycle as much by any means.

836

00:38:13.528 --> 00:38:13.848

Yep.

837

00:38:13.898 --> 00:38:17.108

So it does give us more consistency in terms of our earnings.

838

00:38:17.968 --> 00:38:18.138

Mm.

839

00:38:18.188 --> 00:38:21.548

But it also, as we acquire these businesses,

840

00:38:22.128 --> 00:38:25.948

it also helps our manufacturing because we're able to bring where it makes sense,

841

00:38:25.988 --> 00:38:29.788

that extrusion that are being bought either from our local

842

00:38:29.828 --> 00:38:31.338

competitors or being imported-

843

00:38:31.848 --> 00:38:32.268

Yeah

844

00:38:32.278 --> 00:38:34.128

... through our own plants as well.

845

00:38:34.168 --> 00:38:37.888

That's really interesting. So I naively

846

00:38:37.948 --> 00:38:41.748

assumed it was more a strategic purchase

847

00:38:41.828 --> 00:38:45.448

to strengthen the core of the business, but in and of itself, it's

848

00:38:45.748 --> 00:38:48.608

a profitable, worthwhile investment.

849

00:38:48.618 --> 00:38:48.618

It is.

850

00:38:48.648 --> 00:38:48.778

Yeah.

851
00:38:49.428 --> 00:38:49.438
Yeah.

852
00:38:50.828 --> 00:38:51.828
Okay. That's really interesting.

853
00:38:51.888 --> 00:38:55.817
And there's a little bit of, I suppose, an earnings arbitrage that

854
00:38:55.848 --> 00:38:59.328
you get there as well. Typically, these sort of private businesses and distribution

855
00:38:59.388 --> 00:39:02.448
is, you're not paying typical market multiples as well.

856
00:39:02.488 --> 00:39:06.288
So is that something that investors should be

857
00:39:06.368 --> 00:39:08.488
aware of, or am I barking up the wrong tree with that?

858
00:39:08.548 --> 00:39:11.488
No, look, I think the acquisitions we've made have been

859
00:39:11.828 --> 00:39:15.508
between three and a half to four and a half times EBIT.

860
00:39:16.008 --> 00:39:16.288
Yeah.

861
00:39:18.028 --> 00:39:21.948
They're relatively smaller businesses, and we work

862
00:39:21.988 --> 00:39:25.068
with those owners over a period of years to-

863
00:39:27.368 --> 00:39:27.377
Mm

864
00:39:27.377 --> 00:39:31.128

... be there when they're looking to retire. So that's been pretty successful.

865

00:39:31.308 --> 00:39:35.288

I think if we're going to chase some of the medium-sized ones as their

866

00:39:35.388 --> 00:39:37.448

timing is right, we may have to pay a little bit more, but-

867

00:39:38.088 --> 00:39:38.258

Mm

868

00:39:38.468 --> 00:39:40.268

... those are the multiples that we're taking on.

869

00:39:40.348 --> 00:39:43.518

Now, clearly, we're not trying to get a huge multiple either, so we don't

870

00:39:43.608 --> 00:39:45.908

particularly want to go and pay 10 times for something.

871

00:39:46.448 --> 00:39:46.728

Sure.

872

00:39:47.328 --> 00:39:50.148

Which we wouldn't do, but we can. Obviously, we're

873

00:39:51.488 --> 00:39:55.308

in a position to help consolidate

874

00:39:55.328 --> 00:39:56.868

the industry that we're in, and

875

00:39:57.768 --> 00:39:59.408

because of our cash position, we're able to

876

00:40:00.428 --> 00:40:04.398

move quickly and take advantage when the time is right for some of

877

00:40:04.408 --> 00:40:06.568

these owner-operators to exit.

878

00:40:06.628 --> 00:40:10.068

Yeah. Makes perfect sense. And actually, the next question was on that with

879

00:40:10.108 --> 00:40:14.068

the advantage of the cash balance, but we've dug into that and you've added

880

00:40:14.118 --> 00:40:17.448

more detail there. So if that's okay, I might just skip that question there.

881

00:40:17.468 --> 00:40:21.338

The next one, though, is, you've kind of touched on this, so if there's

882

00:40:21.348 --> 00:40:24.698

nothing left to say, don't. There's nothing left to say, but the question is, what

883

00:40:24.728 --> 00:40:26.768

are the capital works plans for the next few years?

884

00:40:27.888 --> 00:40:31.228

Yeah, so as I say, look, we normally spend around six to seven million on

885

00:40:31.288 --> 00:40:35.128

maintenance CapEx. We've got this year, at the end of this

886

00:40:35.208 --> 00:40:38.808

year, over the Christmas break, we've got two large projects going on.

887

00:40:38.888 --> 00:40:41.728

One is our rebuild of our press in Perth.

888

00:40:42.288 --> 00:40:42.448

Yep.

889

00:40:43.268 --> 00:40:45.468

Probably a \$3.5 million project.

890

00:40:46.748 --> 00:40:49.648

Always challenging when you take a press down for six weeks.

891

00:40:50.088 --> 00:40:50.188

Mm-hmm.

892

00:40:50.508 --> 00:40:54.208

And then in our biggest plant at Bremer, our large, sorry,

893

00:40:54.348 --> 00:40:57.928

eight-inch press up there, one of our presses, we are installing the

894

00:40:58.008 --> 00:41:00.268

first electric furnace,

895

00:41:01.108 --> 00:41:01.808

billet furnace-

896

00:41:02.328 --> 00:41:02.388

Mm

897

00:41:02.968 --> 00:41:04.488

... in the Southern Hemisphere. So,

898

00:41:05.448 --> 00:41:08.528

typically, well, all of the presses typically are gas-fired.

899

00:41:09.248 --> 00:41:09.368

Yep.

900

00:41:09.448 --> 00:41:10.808

This is an induction heater,

901

00:41:11.648 --> 00:41:14.608

heating up the billet. We heat all the aluminum billet we buy from smelters.

902

00:41:14.628 --> 00:41:18.468

We heat up to 500 degrees Celsius before we can extrude it.

903

00:41:18.728 --> 00:41:18.738

Mm.

904

00:41:18.748 --> 00:41:21.348

And this will be the first of its type in the Southern Hemisphere.

905

00:41:21.388 --> 00:41:24.828

Made possible through a government grant, the ARENA grant.

906

00:41:25.068 --> 00:41:25.188

Yep.

907

00:41:25.508 --> 00:41:28.828

This is costing around seven million, but we get a 50%

908

00:41:29.268 --> 00:41:33.118

subsidy or grant to bring it back to the capital

909

00:41:33.228 --> 00:41:35.268

cost of a gas furnace. So that's a

910

00:41:36.128 --> 00:41:37.128

really interesting

911

00:41:37.188 --> 00:41:41.128

project that we're going to be involved

912

00:41:41.168 --> 00:41:45.008

in and potentially moving, well, certainly to reduce our

913

00:41:45.048 --> 00:41:48.348

carbon emissions with that particular project, but

914

00:41:49.128 --> 00:41:52.948

we've got eight extrusion presses in Australia, and as the cost of that

915

00:41:53.028 --> 00:41:56.128

technology comes down, we can look at reducing our carbon footprint even further.

916

00:41:56.848 --> 00:41:58.848

So those are the two big projects this year.

917

00:41:59.348 --> 00:42:00.808

But as I said, looking forward,

918

00:42:02.088 --> 00:42:05.288

I think that our maintenance CapEx will be around that seven million mark for our

919

00:42:05.588 --> 00:42:06.788

manufacturing operations-

920

00:42:07.288 --> 00:42:07.297

Mm

921

00:42:07.297 --> 00:42:10.858

... but we are looking at some quite large potential investments in

922

00:42:11.028 --> 00:42:12.448

automation of our warehousing.

923

00:42:13.308 --> 00:42:16.428

And those are bigger numbers again, so yeah.

924

00:42:17.388 --> 00:42:19.148

Yeah. Putting the

925

00:42:22.168 --> 00:42:25.928

electric-powered process

926

00:42:25.988 --> 00:42:29.828

on par cost-wise with gas is obviously a big advantage, and as you say,

927

00:42:30.048 --> 00:42:32.428

it sort of helps with the green credentials.

928

00:42:32.488 --> 00:42:35.148

Again, not to open up that can of worms too much more, but

929

00:42:35.268 --> 00:42:38.388

why is that important for you guys?

930

00:42:38.528 --> 00:42:42.428

I know that the ESG thematic on the market has

931

00:42:42.488 --> 00:42:43.228

sort of faded

932

00:42:44.228 --> 00:42:47.688

over time, but is that important from a,

933

00:42:48.368 --> 00:42:51.168

what's the term, a social license to operate-

934

00:42:51.278 --> 00:42:51.278

Yeah

935

00:42:51.278 --> 00:42:54.758

... kind of perspective, or is this other things that I'm not thinking of?

936

00:42:56.552 --> 00:42:56.812

Look,

937

00:42:57.852 --> 00:43:01.632

it's important for a-- Well, obviously, the social license is one, and certainly I

938

00:43:01.652 --> 00:43:03.292

don't think the ESG thing's gone away.

939

00:43:03.872 --> 00:43:04.101

Mm-hmm.

940

00:43:05.672 --> 00:43:09.412

We just produced our first climate report, being a December

941

00:43:09.492 --> 00:43:13.382

financial year, and we had the joy of being any company over 500 million,

942

00:43:13.412 --> 00:43:15.072

which we are, have to produce a climate report.

943

00:43:15.132 --> 00:43:16.192

So that certainly is,

944

00:43:17.432 --> 00:43:18.832

the auditors are having fun

945

00:43:19.832 --> 00:43:23.592

with that. It's a whole other revenue stream, so that can be

946

00:43:23.652 --> 00:43:24.732
started on that particular thing.

947

00:43:24.912 --> 00:43:24.962
Mm-hmm.

948

00:43:25.202 --> 00:43:27.272
So ESG side is not going away anytime soon.

949

00:43:27.312 --> 00:43:28.282
It may have, under the

950

00:43:29.312 --> 00:43:32.981
Trump's world, have gone quiet for a little bit, but-

951

00:43:33.282 --> 00:43:33.282
Mm-hmm

952

00:43:33.282 --> 00:43:35.592
... it is part of our social license to operate in Australia.

953

00:43:35.632 --> 00:43:37.021
We're still heading down. We've got-

954

00:43:37.021 --> 00:43:37.021
Yeah

955

00:43:37.021 --> 00:43:38.362
... renewable targets. We've got-

956

00:43:40.112 --> 00:43:40.322
Yeah

957

00:43:40.332 --> 00:43:41.732
... we've got emissions reduction targets.

958

00:43:41.782 --> 00:43:43.832
So we are doing the right thing as a corporate citizen.

959

00:43:44.352 --> 00:43:45.352

But probably,

960

00:43:46.752 --> 00:43:47.552

commercially,

961

00:43:49.592 --> 00:43:53.372

the built environment in Australia is looking to reduce the carbon

962

00:43:53.432 --> 00:43:56.052

footprint of buildings and other things.

963

00:43:56.472 --> 00:43:56.592

Yep.

964

00:43:57.492 --> 00:43:57.892

And,

965

00:43:58.792 --> 00:43:59.222

we are

966

00:44:01.032 --> 00:44:03.872

the only extruder in this part of the world,

967

00:44:04.192 --> 00:44:07.752

well, certainly in Australia and New Zealand, to have

968

00:44:08.892 --> 00:44:12.872

ASI certification, so we can produce low-carbon aluminum.

969

00:44:13.272 --> 00:44:13.322

Mm-hmm.

970

00:44:13.952 --> 00:44:17.932

And as we reduce our carbon footprint, we're able to offer even lower

971

00:44:18.192 --> 00:44:19.592

carbon aluminum,

972

00:44:20.412 --> 00:44:23.952

certified into various either commercial or industrial building

973

00:44:24.012 --> 00:44:24.482

projects-

974

00:44:25.052 --> 00:44:25.092

Mm-hmm

975

00:44:25.552 --> 00:44:27.932

... and specific

976

00:44:29.152 --> 00:44:31.102

other projects. For example,

977

00:44:32.412 --> 00:44:36.332

you may or may not be aware that Incat, one of the large boat

978

00:44:36.372 --> 00:44:37.212

builders in Australia,

979

00:44:38.032 --> 00:44:38.832

have produced

980

00:44:39.792 --> 00:44:41.472

one of the world's first electric

981

00:44:42.792 --> 00:44:45.352

ferries, which is heading to Europe very shortly.

982

00:44:45.792 --> 00:44:49.432

And we've been able to supply lower carbon aluminum as part of the build of that

983

00:44:49.492 --> 00:44:51.812

vessel. So, it does have a

984

00:44:52.732 --> 00:44:56.432

commercial benefit as well. And we have a number of customers that have

985

00:44:56.472 --> 00:44:57.032

taken on

986

00:44:57.952 --> 00:45:00.122

that lower carbon aluminum as part of their,

987

00:45:00.932 --> 00:45:03.392

I guess, go-to-market,

988

00:45:04.412 --> 00:45:04.871

both in

989

00:45:05.812 --> 00:45:08.652

the industrial segments and in the commercial building segments as well.

990

00:45:09.192 --> 00:45:13.152

I was going to ask you that. So the appeal to customers is so that they can

991

00:45:13.452 --> 00:45:15.971

wear their green badge and say, "Look what we're doing."

992

00:45:16.012 --> 00:45:16.032

Yes.

993

00:45:16.252 --> 00:45:17.692

Okay. Yeah. That makes sense.

994

00:45:18.242 --> 00:45:18.242

Yeah.

995

00:45:20.312 --> 00:45:23.562

This is a general question. What are the tailwinds/headwinds for the business at

996

00:45:23.592 --> 00:45:26.362

the moment? Well, I guess we've touched on a big one at the start.

997

00:45:27.372 --> 00:45:29.462

What about some potential tailwinds?

998

00:45:29.992 --> 00:45:33.972

Well, a tailwind then is that, I think you'd have to read or listen to

999

00:45:33.992 --> 00:45:37.812

the news every day or any politician speak, we have a housing crisis.

1000

00:45:37.852 --> 00:45:39.572

We don't have enough houses being built in Australia.

1001

00:45:40.052 --> 00:45:40.182

Yep.

1002

00:45:40.192 --> 00:45:44.032

40-odd percent of our business is generated through house building.

1003

00:45:44.492 --> 00:45:45.232

Yep.

1004

00:45:45.332 --> 00:45:46.072

And while

1005

00:45:49.012 --> 00:45:52.872

new housing starts have been down the last couple of years,

1006

00:45:53.252 --> 00:45:56.912

there is pent-up demand, and as soon as the government and

1007

00:45:57.472 --> 00:45:59.712

state and local governments free up land supply,

1008

00:46:01.152 --> 00:46:04.872

help new homeowners buy new homes, which

1009

00:46:04.892 --> 00:46:08.852

they're obviously determined to do, then we will see a lift in the housing

1010

00:46:08.892 --> 00:46:12.072

market. So it's just a matter of time before that

1011

00:46:12.952 --> 00:46:16.832

tailwind hits. It's just we really thought it was going to be in the second half of

1012

00:46:16.952 --> 00:46:18.232

2026, but

1013
00:46:19.732 --> 00:46:21.772
events have transpired to make that

1014
00:46:23.372 --> 00:46:23.632
probably

1015
00:46:24.492 --> 00:46:26.792
peel those expectations back a little bit.

1016
00:46:27.142 --> 00:46:30.972
But there's no doubt that Australia is undersupplied with housing,

1017
00:46:31.452 --> 00:46:35.252
whether that's apartments or whether that's low-rise residential or

1018
00:46:35.292 --> 00:46:37.772
whether it's standalone housing, we are under-built.

1019
00:46:38.672 --> 00:46:38.872
Mm-hmm.

1020
00:46:39.012 --> 00:46:42.562
You can't bring, because I think what I heard on TV the other night, which a

1021
00:46:42.572 --> 00:46:46.112
politician said, you can't bring 400,000 people into the

1022
00:46:46.192 --> 00:46:50.172
country every year for the last few years and have nowhere for them to

1023
00:46:50.212 --> 00:46:50.812
live, so-

1024
00:46:51.492 --> 00:46:51.552
Yeah

1025
00:46:52.092 --> 00:46:53.732
... we're not building dwellings fast enough.

1026
00:46:54.452 --> 00:46:55.092

Yep.

1027

00:46:55.212 --> 00:46:58.352

So that tailwind will come. It's just a matter of when.

1028

00:46:58.412 --> 00:47:02.392

Yeah. Well, as I set you off here, I think for our part, it's not really

1029

00:47:02.652 --> 00:47:06.292

a big focus of whether it's this half, next half, but sort of

1030

00:47:06.332 --> 00:47:06.702

that,

1031

00:47:07.912 --> 00:47:11.292

in that medium-term horizon is sort of a more interesting thing, right?

1032

00:47:12.851 --> 00:47:16.832

Hey, look, I hate to come back to energy, but there's another question

1033

00:47:16.892 --> 00:47:20.292

here. And I think it's worth pointing out because when you talk about aluminum, I

1034

00:47:20.312 --> 00:47:23.812

think there is that expectation that it's just energy, it's just a massive cost.

1035

00:47:24.272 --> 00:47:27.952

But for you, I want to say 7, 8% of your costs

1036

00:47:29.152 --> 00:47:30.422

from last time we chatted-

1037

00:47:30.492 --> 00:47:31.052

Yeah

1038

00:47:31.152 --> 00:47:32.192

... are associated with the end product.

1039

00:47:32.212 --> 00:47:35.452

About 7% of our manufacturing cost-

1040
00:47:36.092 --> 00:47:36.192
Yep

1041
00:47:36.312 --> 00:47:36.312
...

1042
00:47:37.452 --> 00:47:41.132
excluding the raw material, but I'm just talking about our conversion

1043
00:47:41.172 --> 00:47:41.472
cost-

1044
00:47:41.912 --> 00:47:41.942
Yep

1045
00:47:41.942 --> 00:47:42.991
... is energy.

1046
00:47:43.152 --> 00:47:43.352
Yep.

1047
00:47:43.432 --> 00:47:45.812
It used to be probably 4%, but

1048
00:47:47.012 --> 00:47:50.812
energy prices, particularly gas and electricity, have gone up quite significantly

1049
00:47:50.852 --> 00:47:52.371
in the last four to five years.

1050
00:47:52.412 --> 00:47:52.472
Yep.

1051
00:47:52.852 --> 00:47:55.972
But, so it doesn't have a massive detrimental effect on us.

1052
00:47:56.932 --> 00:48:00.012
And certainly, all of our local competitors are facing the same situation.

1053
00:48:00.652 --> 00:48:00.772

Yep.

1054

00:48:00.812 --> 00:48:04.622

However, it does make it more difficult to compete against imports, and imports are

1055

00:48:04.652 --> 00:48:05.352

a big part of

1056

00:48:06.672 --> 00:48:08.732

the extrusion market in Australia, representing-

1057

00:48:08.812 --> 00:48:08.972

Yeah

1058

00:48:09.332 --> 00:48:11.052

... over a third of the market. So yeah.

1059

00:48:11.092 --> 00:48:12.912

Yeah, no, it's worth mentioning this because I think

1060

00:48:14.412 --> 00:48:18.272

naively you expect 30% or something much higher, so

1061

00:48:18.712 --> 00:48:20.312

not as low as you perhaps would like-

1062

00:48:20.361 --> 00:48:20.361

No

1063

00:48:20.361 --> 00:48:22.932

... but not as high as some people might assume.

1064

00:48:23.052 --> 00:48:26.932

No, well, if you're smelting aluminum from alumina, you're talking about

1065

00:48:27.152 --> 00:48:27.892

60% of your cost-

1066

00:48:28.132 --> 00:48:29.392

60%, okay. Yeah

1067

00:48:29.402 --> 00:48:29.532

... yeah, is

1068

00:48:30.412 --> 00:48:31.512

energy. Yes. Yeah.

1069

00:48:31.612 --> 00:48:32.132

Wow.

1070

00:48:34.312 --> 00:48:37.652

Yeah, okay. Da, da, da.

1071

00:48:39.492 --> 00:48:40.212

Well, you

1072

00:48:41.012 --> 00:48:44.002

touched on this, so again, I just want to be thorough here, so I just make sure I

1073

00:48:44.052 --> 00:48:46.112

answer it or put everyone's questions to you.

1074

00:48:46.172 --> 00:48:48.032

But if it's been answered, it's been answered.

1075

00:48:48.052 --> 00:48:51.412

But, the question being, can you summarize the board's strategy on current thoughts

1076

00:48:51.452 --> 00:48:53.572

on the size of buybacks and dividends?

1077

00:48:53.592 --> 00:48:56.092

We've kind of covered it, but is there anything extra to say?

1078

00:48:56.812 --> 00:48:57.072

Look,

1079

00:48:59.212 --> 00:49:03.132

the 40 to 60% of earnings is what our capital allocation, or

1080

00:49:03.152 --> 00:49:06.692

capital management will be, and that'll be

1081

00:49:06.752 --> 00:49:10.572

primarily through buybacks because we don't have any franking credits left.

1082

00:49:10.592 --> 00:49:10.712

Yep.

1083

00:49:10.732 --> 00:49:13.012

They all finished those all up a year or so ago.

1084

00:49:13.432 --> 00:49:13.462

Yep.

1085

00:49:13.472 --> 00:49:16.212

So rather than pay unfranked dividends, we're doing buybacks.

1086

00:49:16.272 --> 00:49:19.852

There is only so much we can do because our shares are not

1087

00:49:19.952 --> 00:49:20.832

overly liquid.

1088

00:49:21.292 --> 00:49:21.412

Mm.

1089

00:49:22.312 --> 00:49:25.652

And we've got some very large long-term shareholders-

1090

00:49:26.192 --> 00:49:26.252

Mm

1091

00:49:26.832 --> 00:49:28.252

... which see value in the company.

1092

00:49:29.472 --> 00:49:33.392

So, our ability to buyback, we're getting nowhere

1093

00:49:33.432 --> 00:49:36.052

near the 10% buyback of our stock each year-

1094

00:49:36.552 --> 00:49:36.562

Yep

1095

00:49:36.562 --> 00:49:38.212

... since we've been doing this the last two and a half years.

1096

00:49:38.292 --> 00:49:42.212

So we will be topping it up with unfranked dividends as required, but our primary

1097

00:49:42.652 --> 00:49:44.672

return to shareholders will be by way of buyback.

1098

00:49:44.912 --> 00:49:46.792

Which not only underpins the share price,

1099

00:49:47.992 --> 00:49:51.932

but also leads to, obviously, less shares on issue and a higher

1100

00:49:52.032 --> 00:49:52.932

earnings per share.

1101

00:49:53.492 --> 00:49:57.352

Yep. That's great. And it's also very interesting to note you're not using the full

1102

00:49:57.392 --> 00:50:00.792

allocation. In other words, given the liquidity requirement there is that,

1103

00:50:01.772 --> 00:50:03.172

on one hand, there's the danger,

1104

00:50:04.152 --> 00:50:07.072

you drive the share price up too high, but of course there's less bang for buck on

1105

00:50:07.112 --> 00:50:08.242

the buyback mathematics.

1106

00:50:08.412 --> 00:50:08.812

Exactly.

1107

00:50:09.312 --> 00:50:09.911

So it's a whole thing.

1108

00:50:10.412 --> 00:50:12.682

When we get past NTA, then we'll worry about that.

1109

00:50:12.902 --> 00:50:12.902

Right.

1110

00:50:12.932 --> 00:50:15.912

So our NTA, just for the record,

1111

00:50:15.972 --> 00:50:19.672

at the end of December, it's probably gone up

1112

00:50:19.952 --> 00:50:20.412

since then,

1113

00:50:21.212 --> 00:50:24.332

was \$12.72. And that was after the

1114

00:50:25.772 --> 00:50:27.772

impact of the lease accounting adjustment.

1115

00:50:27.832 --> 00:50:29.672

So it was probably at least another 50 cents-

1116

00:50:30.252 --> 00:50:30.512

Yes

1117

00:50:30.522 --> 00:50:32.022

... in real terms above that. And then of course-

1118

00:50:32.032 --> 00:50:32.112

Yes

1119

00:50:32.732 --> 00:50:35.962

... we've had earnings in the first half of this year, so fair to say, as of today,

1120

00:50:36.012 --> 00:50:38.232

it's well above \$13 a share. So,

1121

00:50:39.232 --> 00:50:42.492

I'm not sure what our share price is, probably around 12 bucks I think at the

1122

00:50:42.532 --> 00:50:45.092

moment. So it still represents good buying for anyone out there that

1123

00:50:47.352 --> 00:50:48.132

wants to invest.

1124

00:50:48.852 --> 00:50:52.232

I'll put this question to you, Tony, and I always preface it by saying that I

1125

00:50:52.652 --> 00:50:55.612

actually really like that you don't know the exact share price.

1126

00:50:55.672 --> 00:50:59.412

I think a lot of the CEOs we speak to are very hyper-aware of it,

1127

00:50:59.452 --> 00:51:02.642

and it's just sort of like I've always been of the view that you look after the

1128

00:51:02.692 --> 00:51:04.572

business, the share price looks after itself.

1129

00:51:04.992 --> 00:51:08.952

So you don't want to be ignorant of it, but you don't want to obsess over it at the

1130

00:51:09.012 --> 00:51:09.632

same time.

1131

00:51:10.732 --> 00:51:14.572

And I put this question to you knowing that you can only guess as much as the

1132

00:51:14.592 --> 00:51:17.992

rest of us. But given the conversations that you have with various

1133

00:51:18.072 --> 00:51:20.762

stakeholders, what do you think it is that

1134

00:51:21.632 --> 00:51:22.852

the market is

1135

00:51:24.572 --> 00:51:28.372

not seeing, that it is happy for you to trade at such

1136

00:51:28.452 --> 00:51:30.852

a big discount to NTA?

1137

00:51:32.712 --> 00:51:36.572

Yeah. Well, we're not trading that far below NTA today, but yeah, if we went

1138

00:51:36.632 --> 00:51:38.112

back a few years, we were.

1139

00:51:38.232 --> 00:51:38.672

Yeah.

1140

00:51:38.732 --> 00:51:39.312

And I think we

1141

00:51:40.132 --> 00:51:41.922

are slowly but surely being re-rated-

1142

00:51:42.852 --> 00:51:42.992

Yeah

1143

00:51:43.052 --> 00:51:45.972

... to closer to where we should be. Not there yet.

1144

00:51:46.872 --> 00:51:50.852

Look, the company has been through some challenging periods, and I

1145

00:51:50.892 --> 00:51:53.172

think people have got the long memories.

1146

00:51:54.072 --> 00:51:57.292

15 years ago, the company was in financial strife.

1147

00:51:57.852 --> 00:51:58.012

Yeah.

1148

00:51:59.012 --> 00:52:02.812

And if it wasn't for one of our major shareholders putting more money in, then

1149

00:52:03.232 --> 00:52:04.512

it would've been really challenging.

1150

00:52:04.532 --> 00:52:08.312

And of course, I might have mentioned to you earlier that at that point, it was 16

1151

00:52:08.332 --> 00:52:11.812

years ago, 17 years ago, the banks required us to sell all of our-

1152

00:52:12.552 --> 00:52:12.562

Mm

1153

00:52:12.562 --> 00:52:16.292

... manufacturing sites, which we're now looking to buy them back at four

1154

00:52:16.332 --> 00:52:18.112

times what we sold them for. But anyway, that's another story.

1155

00:52:18.672 --> 00:52:19.082

Mm.

1156

00:52:19.112 --> 00:52:21.472

So look, the company has gone through some difficult times.

1157

00:52:23.012 --> 00:52:25.372

But we have restructured the business significantly.

1158

00:52:25.812 --> 00:52:29.272

The focus is on aluminum sales and distribution, and we're,

1159

00:52:29.712 --> 00:52:32.652

I guess extrusion is at the core of what we do.

1160

00:52:32.712 --> 00:52:33.312

But

1161

00:52:34.572 --> 00:52:38.192

our big focus is on market share growth and

1162

00:52:38.852 --> 00:52:42.252

making good profitability out of what we do.

1163

00:52:43.052 --> 00:52:43.752

We are still,

1164

00:52:44.612 --> 00:52:48.592

post-COVID, the post-COVID building boom saw us run at capacity.

1165

00:52:49.152 --> 00:52:50.092

Yeah.

1166

00:52:50.172 --> 00:52:53.552

And we made really above average profits in those areas,

1167

00:52:54.152 --> 00:52:57.592

in those times. Now we're now at the bottom of the building cycle.

1168

00:52:57.982 --> 00:52:57.982

Yeah.

1169

00:52:58.012 --> 00:53:01.452

We're still making quite, as you said, 35 million

1170

00:53:01.512 --> 00:53:03.212

NPAT last year-

1171

00:53:03.332 --> 00:53:03.342

Yeah

1172

00:53:03.342 --> 00:53:05.662

... at what was pretty much the bottom of the housing cycle.

1173

00:53:06.012 --> 00:53:09.192

If we went back a decade, prior to that, Capital would've been

1174

00:53:09.912 --> 00:53:12.132

at break even best at that point in time.

1175

00:53:12.142 --> 00:53:12.142

Yep.

1176

00:53:12.172 --> 00:53:13.512

So the business has changed a lot.

1177

00:53:14.972 --> 00:53:16.532

But people have got long memories, so...

1178

00:53:17.152 --> 00:53:17.392

Yeah.

1179

00:53:18.612 --> 00:53:21.532

It's interesting because I would almost frame it differently.

1180

00:53:21.612 --> 00:53:25.131

It's like the friend that's had the heart attack.

1181

00:53:25.191 --> 00:53:29.092

You won't find a more ardent fitness fanatic than someone's been through

1182

00:53:29.132 --> 00:53:32.482

a scare. And there's probably a parallel there

1183

00:53:32.512 --> 00:53:36.472

with businesses. So I very much understand the history,

1184

00:53:36.552 --> 00:53:40.412

but at the same time, it's probably sharpened the focus, and it

1185

00:53:40.432 --> 00:53:43.252

clearly has sharpened the focus in a lot of areas, and

1186

00:53:44.112 --> 00:53:45.212

with more of an

1187

00:53:46.512 --> 00:53:49.072

awareness to resilience and all of those kinds of things.

1188

00:53:50.212 --> 00:53:54.032

Gosh, we're almost out of time. Let me go through

1189

00:53:54.042 --> 00:53:54.952

these pretty quickly.

1190

00:53:57.332 --> 00:54:01.292

Now, this is an interesting one. Do you have a rough estimate of what capital

1191

00:54:01.352 --> 00:54:05.272

would be required to recreate all your plant and equipment from scratch

1192

00:54:05.352 --> 00:54:05.732

today?

1193

00:54:07.112 --> 00:54:07.652

Oh.

1194

00:54:12.432 --> 00:54:13.092

I've got to say,

1195

00:54:14.832 --> 00:54:16.832

you wouldn't get any change out of 300 million.

1196

00:54:17.352 --> 00:54:18.432

Yeah. Interesting.

1197

00:54:20.132 --> 00:54:20.352

Yep.

1198

00:54:22.412 --> 00:54:26.312

Probably a lot more, to be fair. A lot more with the way

1199

00:54:26.352 --> 00:54:26.412

the-

1200

00:54:26.452 --> 00:54:29.442

Look at your market cap now, so it's sub-200 million, for those-

1201

00:54:29.572 --> 00:54:29.652

Yeah

1202

00:54:29.772 --> 00:54:30.252

... playing along at home.

1203

00:54:30.352 --> 00:54:33.472

I mean, to rebuild all of our manufacturing sites

1204

00:54:34.252 --> 00:54:34.592

new,

1205

00:54:35.412 --> 00:54:38.592

and our warehousing, it was a big investment in

1206

00:54:39.492 --> 00:54:40.012

warehousing

1207

00:54:41.052 --> 00:54:44.112

infrastructure as well, racking and all the rest of it, and paint lines.

1208

00:54:44.312 --> 00:54:44.712

Yeah, it'd be

1209

00:54:45.572 --> 00:54:46.592

well over 300 million.

1210

00:54:47.072 --> 00:54:49.612

Interesting. Two very quick ones here.

1211

00:54:49.952 --> 00:54:53.052

Are you formally approved as a defense industry supplier?

1212

00:54:53.312 --> 00:54:56.972

And will you provide materials pursuant to the large Austral

1213

00:54:57.712 --> 00:55:00.712

ship build order for the naval and border patrol duties?

1214

00:55:01.132 --> 00:55:05.022

Yes, we are. And Austral is a long-term, very large customer of

1215

00:55:05.032 --> 00:55:05.292

ours.

1216

00:55:05.632 --> 00:55:05.752

Yep.

1217

00:55:07.628 --> 00:55:07.928

The

1218

00:55:09.128 --> 00:55:12.828

border patrol boats, a fair bit of aluminium goes into

1219

00:55:12.888 --> 00:55:13.288

those

1220

00:55:14.408 --> 00:55:15.168

for border patrol,

1221

00:55:16.048 --> 00:55:18.287

being lightweight and a lot of travel those boats do.

1222

00:55:18.368 --> 00:55:18.568

But

1223

00:55:19.728 --> 00:55:23.648

some of the other naval boats are more steel rather than

1224

00:55:23.708 --> 00:55:24.188

aluminium.

1225

00:55:24.908 --> 00:55:25.008

Mm-hmm.

1226

00:55:25.348 --> 00:55:27.588

But we still get our fair share of

1227

00:55:28.408 --> 00:55:28.908

work out of

1228

00:55:30.088 --> 00:55:31.518

those defence projects.

1229

00:55:32.908 --> 00:55:36.328

The last one I've got from the viewers here is, "Can you comment on the intentions

1230

00:55:36.348 --> 00:55:40.328

to create and crystallize shareholder value via acquisition of other large

1231

00:55:40.368 --> 00:55:43.688

aluminium providers?" Now, you've touched on that and really said it's not part of

1232

00:55:43.728 --> 00:55:47.248

the focus, but again, for completeness, is there a scope to break out of this

1233

00:55:47.308 --> 00:55:50.948

situation by putting the entire business out to tender for private equity?

1234

00:55:53.008 --> 00:55:53.388

Well,

1235

00:55:54.308 --> 00:55:56.268

we're a public company, so if a private equity

1236

00:55:57.288 --> 00:55:58.228

firm wants to-

1237

00:55:59.808 --> 00:56:00.548

They go the other way

1238

00:56:00.568 --> 00:56:01.078

... acquire us, then-

1239

00:56:01.248 --> 00:56:01.388

Yeah

1240

00:56:01.428 --> 00:56:03.228

... it's one way to get your share price up, I guess.

1241

00:56:03.328 --> 00:56:04.758

But certainly,

1242

00:56:05.888 --> 00:56:09.668

just prior to COVID, we had an approach from Allegro, one of the larger private

1243

00:56:09.768 --> 00:56:10.468
equity firms in-

1244

00:56:10.748 --> 00:56:11.048
Oh, yeah

1245

00:56:11.168 --> 00:56:12.048
... town, and

1246

00:56:13.088 --> 00:56:16.108
when our share price was relatively weak and we were reasonably

1247

00:56:16.508 --> 00:56:17.228
vulnerable.

1248

00:56:17.308 --> 00:56:17.448
Mm.

1249

00:56:18.428 --> 00:56:19.248
And I think

1250

00:56:20.088 --> 00:56:22.388
the

1251

00:56:25.008 --> 00:56:28.548
price offer was too low, and then COVID hit and the world

1252

00:56:28.648 --> 00:56:29.028
changed.

1253

00:56:29.488 --> 00:56:30.648
Mm-hmm.

1254

00:56:31.428 --> 00:56:34.468
So yes, we've had private equity interest.

1255

00:56:35.088 --> 00:56:36.208
We've also had interest from

1256

00:56:37.188 --> 00:56:40.488

other suitors going back over time.

1257

00:56:40.548 --> 00:56:40.788

But

1258

00:56:42.168 --> 00:56:45.908

look, I think that we're comfortable where we are as a public

1259

00:56:45.948 --> 00:56:48.928

company. We're a medium-sized business.

1260

00:56:49.008 --> 00:56:52.968

We would certainly like our share price to be more rerated and looking at

1261

00:56:53.048 --> 00:56:55.848

other acquisition opportunities.

1262

00:56:58.608 --> 00:56:58.888

Our

1263

00:57:00.448 --> 00:57:04.368

focus will be, as I said earlier, on aluminium distribution for

1264

00:57:04.408 --> 00:57:05.968

all the things we've spoken about earlier.

1265

00:57:05.978 --> 00:57:05.978

Yeah.

1266

00:57:06.008 --> 00:57:09.948

Tax losses, same business test is one thing, but also

1267

00:57:10.028 --> 00:57:13.328

sticking to our knitting and not competing with our customers is another.

1268

00:57:13.968 --> 00:57:15.307

Yeah. Makes perfect sense.

1269

00:57:16.128 --> 00:57:19.968

That's all I've got, Tony. But I suppose a good place to

1270

00:57:20.028 --> 00:57:23.828

just end it off would be, what didn't I ask you that I probably should have,

1271

00:57:23.908 --> 00:57:27.668

or what's the takeaway message that you'd want people to

1272

00:57:27.688 --> 00:57:27.928

know?

1273

00:57:29.408 --> 00:57:30.008

Geez, I think

1274

00:57:31.168 --> 00:57:33.198

we've had a pretty full or

1275

00:57:33.248 --> 00:57:36.128

wholesome conversation-

1276

00:57:36.528 --> 00:57:36.538

Full on

1277

00:57:36.538 --> 00:57:39.108

... Andrew. I don't think there's anything too much left to add.

1278

00:57:39.948 --> 00:57:43.668

Just sort of say that it's really been a journey over the past

1279

00:57:43.928 --> 00:57:46.368

13 years here at Capral, and

1280

00:57:47.008 --> 00:57:50.428

we're pretty proud of what we've created over that period of time.

1281

00:57:50.468 --> 00:57:53.478

And, we look forward to celebrating our 90th year.

1282

00:57:53.608 --> 00:57:56.568

So, hopefully there'll be another 90 years in it.

1283
00:57:56.828 --> 00:57:57.968
Well, I-

1284
00:57:58.068 --> 00:58:00.437
I won't be here when we celebrate our 100th, I can tell you that, but-

1285
00:58:00.728 --> 00:58:01.088
Okay.

1286
00:58:02.388 --> 00:58:04.828
Well, I was going to end by saying congratulations on

1287
00:58:05.628 --> 00:58:08.768
the 90 years. It's a huge milestone.

1288
00:58:09.468 --> 00:58:12.068
So, well done to that, and here's to the next 90 years.

1289
00:58:12.108 --> 00:58:14.888
And, mate, we won't leave it two years for the next one, but we'll-

1290
00:58:14.978 --> 00:58:14.978
No

1291
00:58:14.978 --> 00:58:17.788
... probably try and circle back next year for a follow-up if you're up for it.

1292
00:58:18.188 --> 00:58:19.768
No worries, Andrew, look forward to it. Cheers.

1293
00:58:20.188 --> 00:58:20.988
Excellent. Cheers.

1294
00:58:21.448 --> 00:58:22.088
Bye-bye.

1295
00:58:22.108 --> 00:58:22.448
Bye.