

# FY19 Annual General Meeting

October 2019

*Delivering innovative industrial solutions and services*

- Health, safety and wellbeing
- Coventry Group
- FY19 performance
- FY20 trading update
- Growth strategy update
- Summary and outlook

**We value the health, safety and wellbeing of our people first and foremost.**

**Our aim is for zero lost time injuries.**

**The health, safety and wellbeing of our people is our number one priority**

- 8 Lost Time Injuries (LTI's) in FY19
- 1 LTI YTD in FY20
- All people returned to work in a short time frame

**We are improving our health, safety and wellbeing systems**

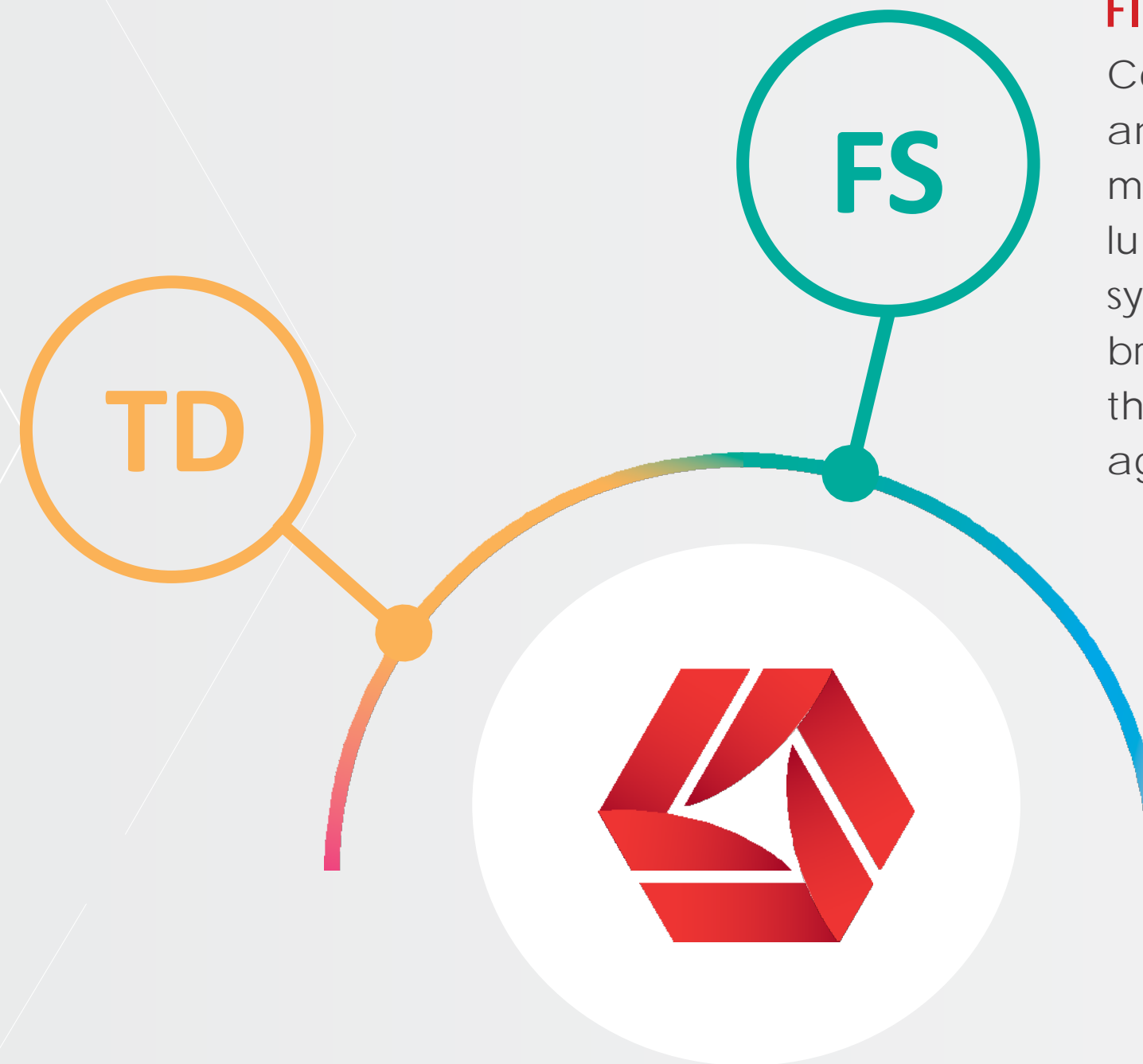
- Investment in additional health and safety resources
- Improvements in incident and near miss reporting and investigations
- Executive Leadership Team (ELT) review of all LTI's and major near misses
- Introduction of Group-wide safety alerts
- Collaboration with safety authorities to improve safety outcomes
- Commitment to wellbeing programs and awareness through initiatives such as 'RUOK?' day and Safe Work Month

## Business Overview

*We supply a range of fastening systems, industrial products, hydraulics, lubrication, fire suppression and refueling systems, cabinet hardware systems and other products.*

### Trade Distribution (TD)

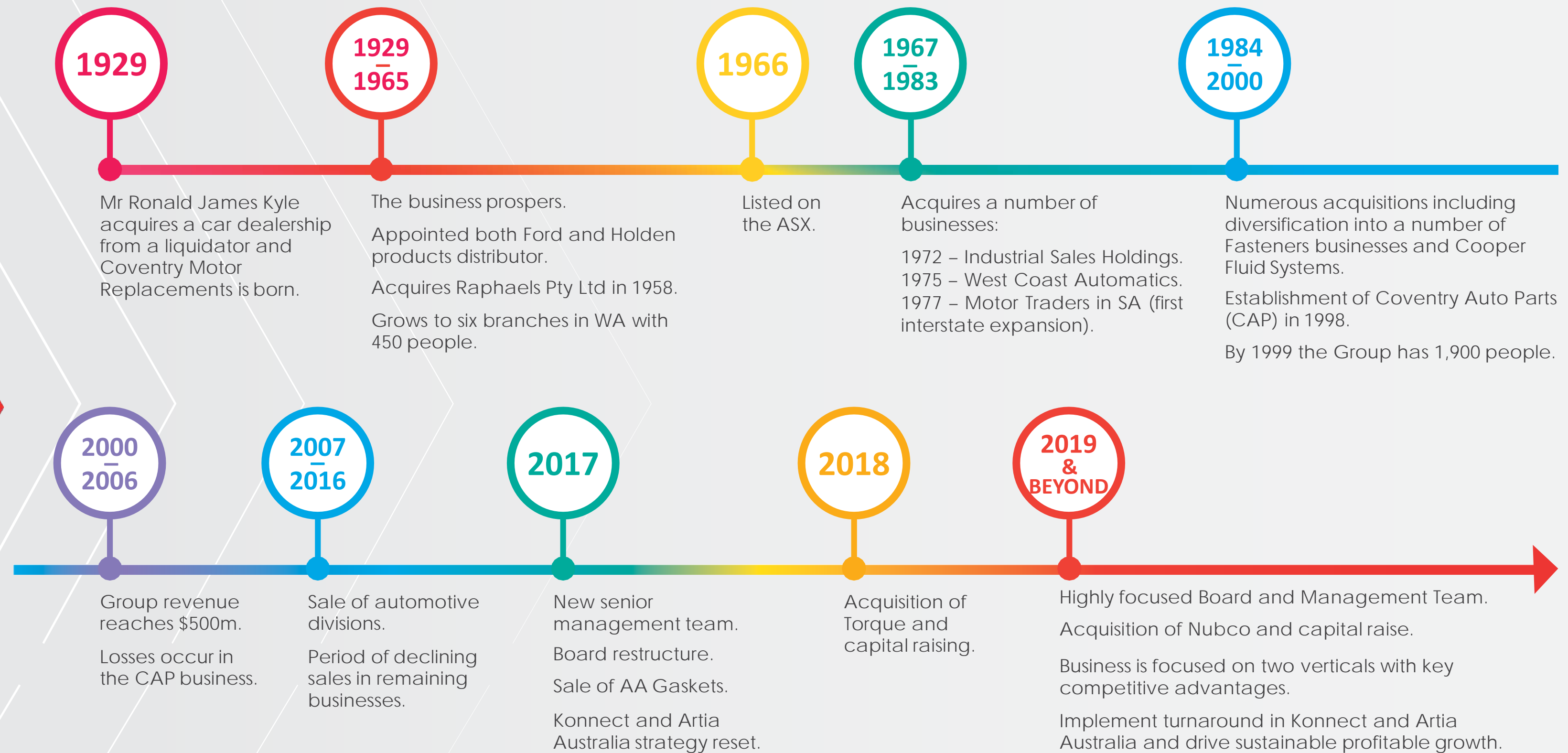
Comprises Konnect and Artia Australia (KAA), Konnect and Artia New Zealand (KANZ), and Nubco. Supplies a range of fastening systems, cabinet hardware systems, industrial and construction products through a network of 48 branches in Australia and 16 branches in New Zealand. Customers are in the manufacturing, construction, agriculture and mining sectors.



### Fluid Systems (FS)

Comprises Cooper Fluid Systems (CFS) and Torque Industries. Designs, manufactures and supplies hydraulics, lubrication, fire suppression and refuelling systems and products through 12 branches in Australia. Customers are in the mining, manufacturing, defence and agriculture sectors.

## Our Story



**Coventry Group Ltd**

ASX: CYG



## FY19 Financial Highlights

Coventry Group's trading performance has improved significantly over FY19.

### Strong FY19 sales growth +20.4% including acquisitions

- Excluding acquisitions FY19 sales growth +7.0% which represents solid organic growth – momentum is building as our value proposition improves.

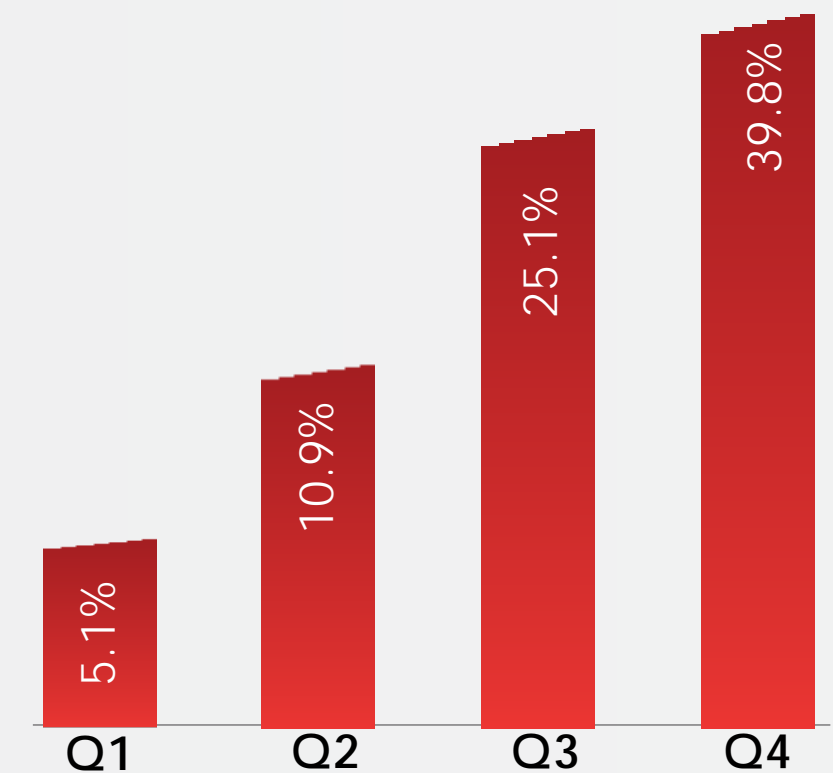
### Group returns to profitability FY19 EBITDA \$2.8m

- \$12.5m EBITDA turnaround in two years
- Significant contribution expansion opportunity in Konnect and Artia Australia as growth reduces fixed costs as a percentage of sales.

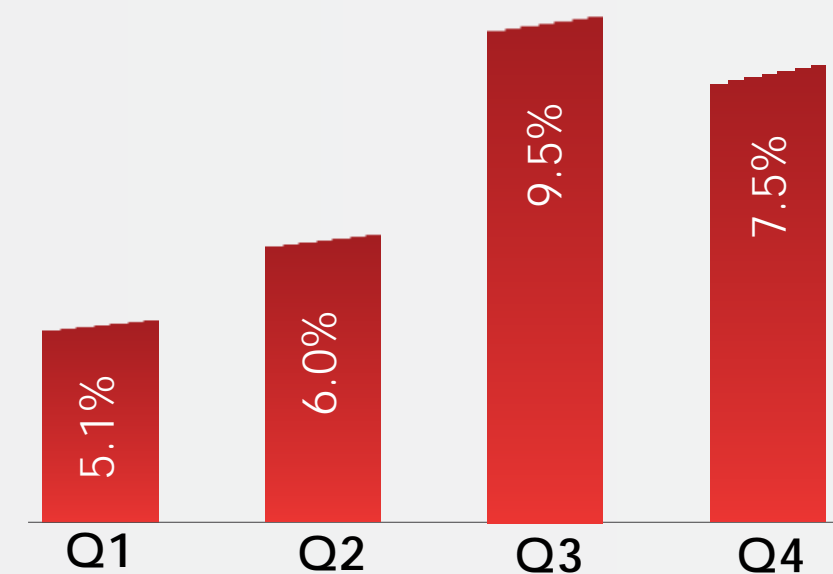
### Balance sheet in a strong position - net debt reduced to \$4.1m at 30 June 2019

- Net assets of \$101.0m
- The business is highly cash generative with limited capex and \$71.9m tax losses available for use in Australia. The Group is now cash flow positive.
- The Group has a strong working capital position with current assets exceeding current liabilities by \$50.8m as at 30 June 2019
- Franking credits available \$10.8m

### Nubco and Torque acquisitions completed and integrations progressing to plan



Quarterly sales growth (including acquisitions)



Quarterly sales growth (excluding acquisitions)



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## Detailed FY19 Financial Results

- Sales +20.4% (including acquisitions)
  - Sales +7.0% excluding acquisitions
  - Sales of \$202.3m (FY18: \$168.1m)
  - Excellent growth in CFS and KANZ
  - KAA sales decline arrested and set up for growth
- Underlying EBITDA of +\$2.8m (including acquisitions)
  - Underlying EBIT including acquisitions of +\$1.1m
- Net loss after tax from continuing operations -\$1.4m
  - Loss reduced by +\$6.9m from -\$8.3m loss in FY18 from continuing operations

(\$m)	FY19 including acquisitions	FY19 excluding acquisitions	FY18
Revenue from sale of goods	202.3	179.8	168.1
EBITDA	2.8	-1.1	-4.7
EBIT	1.1	-2.4	-6.1
Net loss after tax from Continuing Operations	-1.4		-8.3
Net debt	-4.1		5.0
Net Tangible Assets	53.3		48.4

## Fluid Systems – FY19 Financial Overview

(\$m)	FY19 including acquisitions	FY19 excluding acquisitions	FY18
Revenue from sale of goods	83.3	75.6	65.4
EBITDA	8.8	7.4	5.5

### Fluid Systems sales growth +27.3%

- EBITDA improvement of 58.7% FY19

### Cooper Fluid Systems sales growth +15.7%

- EBITDA improvement of 34.1% FY19

### Torque FY19 sales of \$7.6m

- Pro-forma sales of \$12.0m



## Trade Distribution – FY19 Financial Overview

(\$m)	FY19 including acquisitions	FY19 excluding acquisitions	FY18
Revenue from sale of goods	119.1	104.2	102.6
EBITDA	3.3	0.8	-2.5

### Konnect and Artia New Zealand FY19 sales growth +13.3%

- EBITDA improvement of 16.0% FY19

### Konnect and Artia Australia sales in line with PCP

- Excluding one-off project sales to Chevron in WA in H1 FY18 (\$1.282m) and the impact of unprofitable store closures (\$1.467m)
- EBITDA improvement of \$2.7m in FY19
- Targeting a break even or better result for FY20

### Nubco FY19 sales of \$14.9m

- Pro-forma sales of \$42.0m

## FY20 Trading Update

Coventry Group's trading performance continues to improve in FY20.

### Strong Q1 FY20 sales growth +39.2% including acquisitions

- Excluding acquisitions Q1 FY20 sales growth +7.1% which represents solid organic growth – momentum is building as our value proposition improves
- KAA sales growth Q1 FY20 +6.1% which is a significant improvement over FY19 results

### Group profitability improving

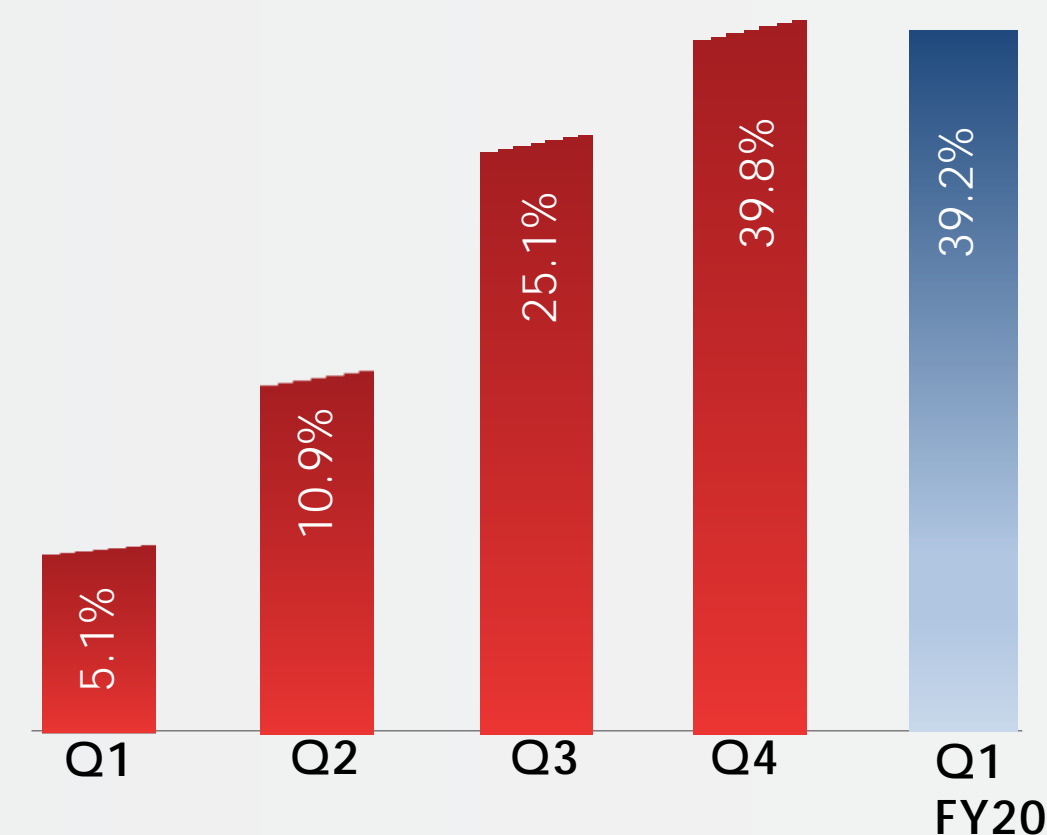
- FY20 EBITDA forecast \$10m+ assuming continuation of current trends and no adverse broader market developments.

### Balance sheet in a strong position

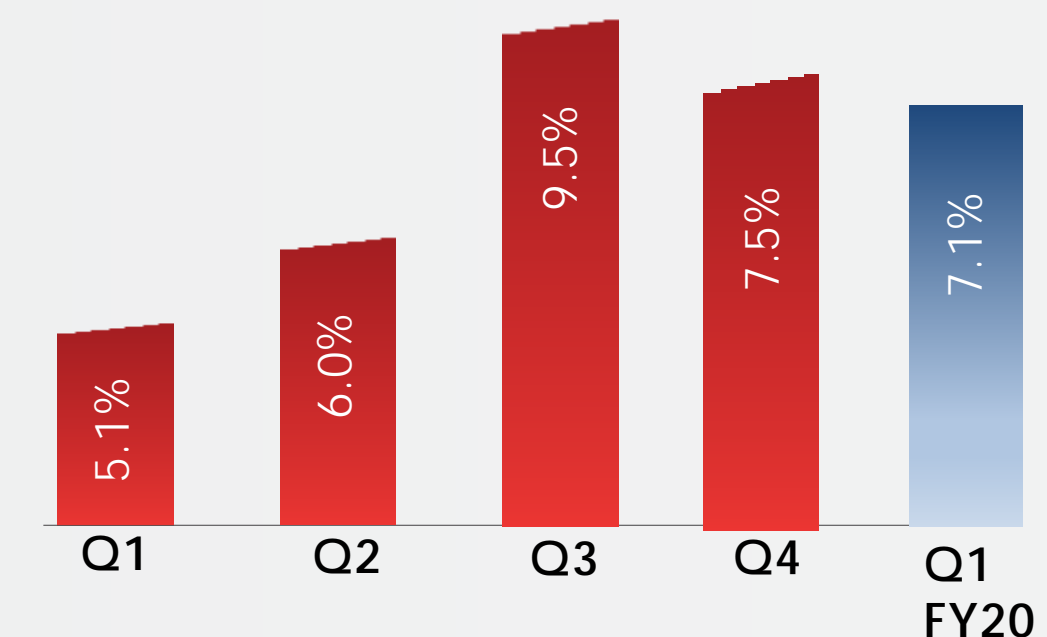
- Net assets of \$102.4m
- Future acquisitions to be funded by operating cash flows and debt
- Discussions underway with various institutions for a flexible, low cost corporate debt facility

### Nubco and Torque

- Sales and profit margins in line with expectations
- Nubco sales growth Q1 FY20 +7.8%
- Torque sales growth Q1 FY20 +1.5%



Quarterly sales growth (including acquisitions)



Quarterly sales growth (excluding acquisitions)

## Vision / Strategic Direction

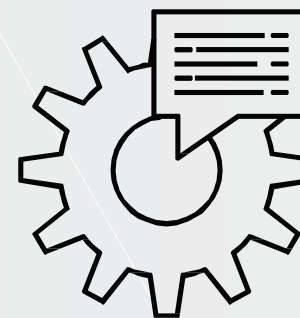
*Our vision is to create a leading Industrial Supply and Services Group achieving sustainable profitable growth through sensible organic development and acquisitions.*

### EXCITING OPPORTUNITY TO BUILD A LEADING SCALED INDUSTRIAL SUPPLY GROUP



The Group has stabilized performance and has a clear pathway back to sustainable profitable growth.

The Board and Executive Leadership Team have developed the vision and strategy for the business over the next five years.

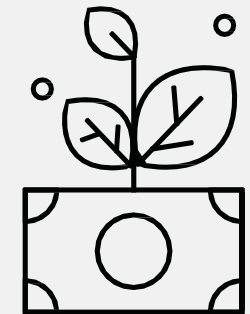


The Board and Executive Leadership Team have significant experience in B2B trade / industrial supply and service distribution markets and know what the blueprint for success looks like.

The Executive Leadership Team also has substantial experience identifying, completing and integrating acquisitions.



A clear opportunity exists to build a highly focused scaled Industrial Supply and Services business with leading market positions across multiple geographies, sectors and products.



Growth can be achieved through a combination of:

- Organic growth (market share gains, new branches, new products and new geographies);
- Sensible strategic acquisitions.

### Fluid Systems has substantial room to grow both organically and through acquisitions

- We are the market leader with less than 10% market share in a fragmented market.
- Our view is the mining and resources sector will remain strong for the next few years (subject to world economic factors).
- We can continue to grow through:
  - Geographic branch expansion in areas such as Victoria, NSW and Tasmania,
  - Expanding in the hydraulic cylinder market share – investment already made into required equipment,
  - Expanding hydraulics, fluid dispensing and refuelling systems capabilities across our customer base,
  - Increasing exposure to other sectors outside of mining and resources such as agriculture, oil & gas, defence and manufacturing.
- Our key challenge is recruiting qualified tradespeople and we are increasing our in house training efforts to counter this.
- We have a positive outlook for our Fluid Systems division.



### Konnect and Artia Australia (KAA)

KAA remains our biggest opportunity for sales and contribution growth.

#### Drive profitable sales growth

- Konnect is one of only three fastener suppliers with true national supply capability.
- Pay off from improving service levels and business development capability in KAA with Q1 FY20 sales growth of +6.1% on the PCP.
- We now have the management and business development capabilities in place to grow through:
  - Taking market share,
  - Opening new stores,
  - Expanding the product range,
  - Exclusive supply arrangements.
- Improved capability is opening opportunities in large construction, infrastructure and mining and resources prospects.
- New Kalgoorlie branch and Mount Gambier pop up store are both performing well. Opening two new stores in Q2 FY20.
- Increased focus on underperforming branches.
- The Group has a small market share (<10%) in the industrial trade supply market with lots of opportunities for growth.

#### Optimise existing branch network and DC footprint

- Fastening systems specialisation is being maintained with trials of selected product ranges based on the Nubco experience.
- Continued optimisation of DC footprint – anticipate a further \$1.0m annualised savings over the next two years.

#### Gross margin improvement opportunities

- \$1.0m of procurement savings delivered as a result of Nubco acquisition and overseas buying initiatives. The full run-rate benefit from 1Q FY20. This is being partly offset by the devaluation in the AUD.
- Improving trading and rebate terms with local and overseas suppliers.
- Reducing freight costs.



### Konnect and Artia New Zealand (KANZ)

- We are the market leader in NZ.
- We expect continuing solid performance.
- The NZ economy is going well in particular in the Auckland construction market.
- We will get the benefit of the full year impact of new stores opened in FY19 – Rotorua, Silverdale and Auckland CBD expansion.
- There is potential for additional store openings in a number of locations.
- Potential acquisitions exist.

### Nubco

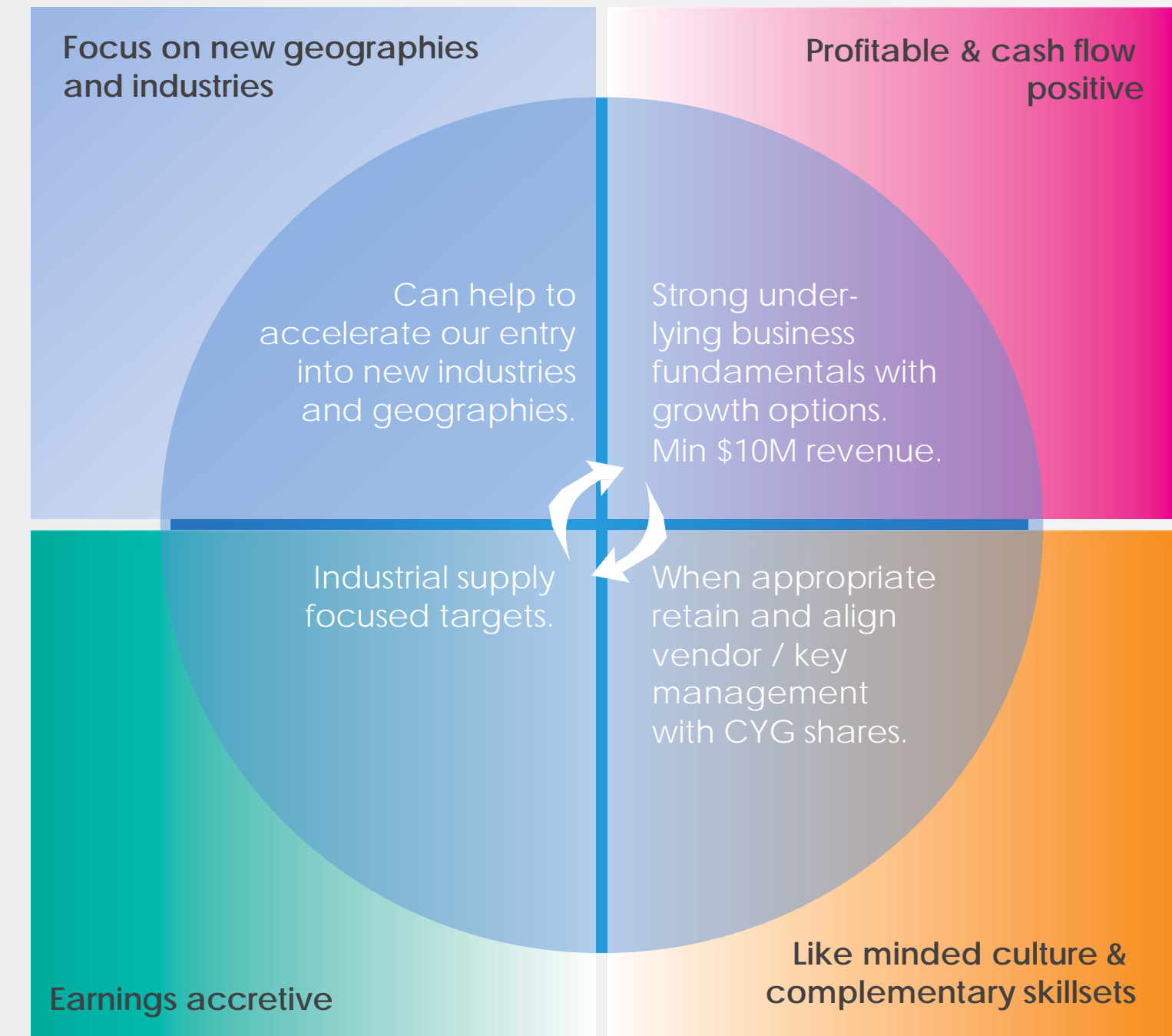
- We are the market leader in Tasmania.
- The team is engaged and we have made minimal changes per our integration strategy. We have provided support in the areas of safety and human resources. Nubco are assisting delivering buying benefits and providing support on store merchandising, marketing and product ranging.
- The Tasmanian economy is in good shape with infrastructure and construction spend confirmed in the state.
- We have a positive outlook for Nubco.

## Acquisitions

*We are actively assessing acquisition opportunities.*

### Sensible strategic acquisitions

- The Group will take a highly disciplined approach to acquisitions with strict criteria.
- Team in place who have a very successful history of growing businesses through sensible and strategic acquisitions.
- We have a pipeline of interesting opportunities.
- Funding will be through debt and operating cash flows.



### The outlook is positive - the Group expects continuing improvement in financial performance in FY20.

- The business has substantial operating leverage as sales grow. There are limited additional operating costs required to support sales growth – the majority of incremental gross margin should drop to the EBITDA line.
- There are significant growth opportunities across all aspects of the business – market share gains, new branches, product range extension and acquisitions.
- Team in place who have a very successful history of growing businesses through sensible and strategic acquisitions. Pipeline of interesting opportunities. Funding will be through debt and operating cash flows.
- The outlook for our end industry exposures (commercial construction, infrastructure and mining and resources) is positive. The Group has negligible exposure to residential construction markets.
- A significant improvement in profitability is forecast for FY20 with the inclusion of recent acquisitions for a full 12 months, continued sales growth, procurement savings and continued optimisation of the distribution footprint.
- FY20 EBITDA forecast \$10m+ assuming continuation of current trends and no adverse broader market developments.
- \$20m EBITDA forecast turnaround since FY17.
- Medium-term target to achieve 7.5% group EBITDA margins.
- Significant tax losses available to offset against future profits.
- Encouraging start to FY20 for KAA +6.1% sales growth in Q1 FY20.



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