ASX RELEASE

2020 Half Year Results

21 February 2020

Highlights

- Trading performance continued to improve during the first half of FY20.
- Group sales growth for H1 FY20 including acquisitions of 36.8% compared with the prior corresponding period (PCP). Excluding acquisitions, group sales growth of 7.7% on PCP. Group sales including acquisitions at $122.6m ($89.6m FY19).
- Konnect Australia sales growth of 5.8% on PCP.
- All business units have incremental sales projects for delivery in H2 FY20 and a strong pipeline of prospects.
- Group underlying EBITDA of +$4.0m (-$0.8m FY19), a $4.8m improvement on PCP.
- Group underlying EBIT of +$2.6m (-$1.5m FY19), a $4.1m improvement on PCP.
- Statutory profit of $2.0m (-$2.4m FY19), a $4.4m improvement on PCP.
- The Group has a solid balance sheet with Net Tangible Assets of $54.4m and Net Assets of $103.6m as at 31 December 2019.
- Net debt of -$5.9m at 31 December 2019.
- The Torque and Nubco acquisitions are delivering positive results within their respective segments.
- No interim dividend declared.

Sales growth

Percentage sales growth change for the half year for FY20 when compared with the PCP is shown below:

Sales change	Half year FY20 vs Half year F19 % sales change including acquisitions	Half year FY20 vs Half year F19 % sales change excluding acquisitions
Fluid Systems	24.1%	11.6%
Trade Distribution	46.3%	5.4%
Consolidated Group	**36.8%**	**7.7%**

Segment Commentary

- Fluid Systems (FS) sales continued to grow with sales including acquisitions up 24.1% on PCP and excluding acquisitions up 11.6% on PCP. Sales growth is continuing to be driven by our strong value proposition and increase in service, maintenance, upgrade and new equipment activity in the mining and resources sector. The integration of Torque is progressing to plan. The relocation of our Hunter Valley branch to a new custom-built facility has been completed.
- Trade Distribution (TD) sales including acquisitions up 46.3% on PCP and excluding acquisitions up 5.4% on PCP.
    - Australia
        - Konnect and Artia Australia (KAA) sales up 4.8% on PCP. Our improved service and business development capability is starting to deliver results. Konnect sales growth of 5.8% was partly offset by a decline in sales in Artia.
        - The integrated Nubco branches have reported sales growth on PCP but are experiencing modest margin pressure from increased competition.
    - New Zealand
        - Konnect & Artia New Zealand (KANZ) sales growth slowed as economic activity softened particularly in the Christchurch region. Despite this, the business continues to gain market share with sales up 6.7% on PCP.

Corporate costs

Net Corporate costs of $5.0m (PCP $4.4m).

Although declining as a percentage of revenue, corporate costs are higher than PCP due to higher insurance costs (particularly D&O liability insurance), IT costs required to rectify legacy issues and to relocate systems to the cloud, costs in relation to our Digital Customer Engagement project and amortization of acquisition customer lists. We are actively seeking replacement tenants at the Redcliffe, WA facility.

Cash position

Net debt of -$5.9m (-$4.1m – 30 June 2019). The increase in debt is due to raising inventory levels to manage growth in the Fluid Systems business, provide coverage over Chinese New Year, improve service levels and launch new products in KAA.

Balance sheet

The Group has a solid working capital position with Current Assets exceeding Current Liabilities by $51.2m at 31 December 2019.

Acquisitions

Acquisition opportunities continue to be carefully considered, in the context of our key acquisition criteria, as they arise.

Coronavirus impact

It is too early to predict the impact of the Coronavirus on our supply chain. The Group continues to monitor the impact on our suppliers in China and other Asian regions and our marine freight carriers. We expect some impact in the near term.

Dividends

The Board has determined that no interim dividend be declared.

Outlook

The outlook for our major end markets (commercial construction, infrastructure and mining) remains positive. The Group has negligible exposure to the residential construction market. At this stage the Group has not been affected by the bushfires impacting Australia and we continue to monitor the potential impact of the Coronavirus on our supply chain.

While the Group has experienced some margin and cost headwinds in H1 FY20 (devaluation of the AUD to USD and insurance cost increases) these are expected to be offset by further margin and cost-out initiatives in H2 FY20. Most importantly the sales pipeline remains very robust which is the key indicator of underlying business health.

Despite these headwinds our previous guidance for FY20 EBITDA of $10m+ remains. This assumes the continuation of current trends, the successful execution of key initiatives and no adverse broader market developments. The medium-term target of 7.5% Group EBITDA margin remains.

Overall, we remain positive about the outlook for the Group.

AASB 16 - Leases

Underlying EBIT, EBITDA and balance sheet ratios exclude the impact of AASB 16 – Leases.

Authorised for release by the Board of Directors of Coventry Group Limited.

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