Coventry Group Ltd

**ASX RELEASE**

# 2020 Full Year Results

**21 August 2020**

## Highlights

- Trading performance improved during FY20 with the Group delivering underlying profitability growth for both EBITDA and EBIT. Our best result in many years has been achieved against the backdrop of COVID-19 shutdowns and restrictions across Australia and New Zealand with headwinds including currency devaluation, insurance cost increases and loss of income from our Redcliffe, WA property.
- Group sales growth for FY20 including acquisitions of 22.3% and excluding acquisitions of 4.7% when compared with the prior year, despite the loss of 23 trading days in our New Zealand trade distribution network. Group sales including acquisitions at $247.6m ($202.3m FY19). Group sales for July 2020 up 7.7% on the prior year.
- Group underlying EBITDA of $6.6m ($2.8m FY19), a $3.8m improvement year on year.
- Group underlying EBIT of $4.0m ($1.1m FY19).
- Statutory net profit for the year $0.8m (net loss for the year $1.4m FY19).
- Significant items including Onerous Lease Provision required for our Redcliffe, WA property $12.2m, inventory write off $6.5m and Deferred Tax Asset - Tax Losses $13.1m.
- The Group has a solid balance sheet with Net Tangible Assets of $47.6m and Net Assets of $102.1m as at 30 June 2020.
- Net debt of $3.3m at 30 June 2020.
- The Group's securitised trade receivables facility with Scottish Pacific has been increased to $40m from $25m for a 36 month term.
- Acquisition of HIS Hose is on hold due to the uncertainty created by the COVID-19 pandemic and Victorian Government lockdown of the Melbourne metropolitan region.
- No final dividend declared.

**Note: Underlying EBIT and EBITDA exclude the impact of AASB 16 - Leases**

## Sales Growth

Percentage sales growth change for the full year of FY20 when compared with the prior year is shown below:

| Sales change | FY20 vs FY19 % sales change including acquisitions (1) | FY20 vs FY19 % sales change excluding acquisitions (1) |
|---|---:|---:|
| Fluid Systems | +15.2% | +8.5% |
| Trade Distribution | +28.1% | +2.6% |
| **Consolidated Group** | **+22.3%** | **+4.7%** |

***Note 1: The Group and Trade Distribution FY20 sales were adversely affected by the enforced Government shutdown in New Zealand during April and May. Sales lost during the period of closure is estimated to be in the order of $2.8m - $3.2m.***

***Divisional Commentary***

- Fluid Systems (FS) have again seen very strong growth with full year sales including acquisitions up 15.2% and excluding acquisitions up 8.5% on the prior year. Underlying EBITDA for FS was $10.3m compared to $8.8m in FY19. Sales growth is being driven by our strong value proposition in the mining and resources sector and our continuing diversification into new sectors including Defence, Agriculture, Transport and Recycling. The integration of Torque is progressing to plan with relocation to a new custom-built facility in Adelaide SA, along with our Cooper Fluid Systems operations completed.
- Trade Distribution (TD) sales for the year including acquisitions up 28.1% on the prior year and excluding acquisitions up 2.6% on the prior year. The underlying EBITDA for TD was $6.7m compared to $3.3m in FY19. Sales growth and EBITDA were both negatively impacted by the enforced Government shutdown in New Zealand.
    - Konnect and Artia New Zealand (KANZ) continued to perform strongly. Sales up 1.0% on prior year but impacted by the loss of 23 days sales during the shutdown and continued disruption due to pandemic restrictions.
    - Konnect and Artia Australia (KAA) sales up 3.4% on the prior year. Further branch consolidation with the closure in June of our unprofitable Darwin branch and merge of Chinchilla into Toowoomba and Morningside into Pinkenba. Variable cost reductions were delivered in Q4 FY20 and additional supply chain optimisation savings will be delivered in Q1 FY21. We have the building blocks for success in place and remain committed to our strategy.
    - Our network of Nubco branded branches in Tasmania had a strong sales year. In May 2020, Nubco's Sales and Marketing Manager Nick Daw was promoted to General Manager succeeding the previous owner of Nubco, Paul Krawczyk. Pleasingly, this transition has been successful and well received by customers and staff.

**COVID-19**

The major impact on the Group in FY20 was the suspension of operations in New Zealand. Since recommencing operations, sales in New Zealand have continued to perform to expectations, as have our Australian operations. Under the Victorian Government Stage 4 restrictions in the Melbourne metropolitan area and New Zealand Government Stage 3 restrictions in Auckland, we are a permitted business and able to operate our branches and distribution centres. It is too early to assess the impact on sales. Otherwise all business units remain fully operational.

Our COVID-19 strategy is focussed on:

- Prioritising the health, safety and wellbeing of our people along with our customers, suppliers and communities.
- Prudent cost management.
- Managing supply chain risks.
- Cash preservation.
- Ensuring the Group is well capitalised and has excess liquidity.
- Operating the Group as close as possible to business as usual.

Given market uncertainties resulting from the pandemic's impacts, we are not providing full year guidance.

### HIS Hose acquisition

Completion of the acquisition of HIS Hose in Victoria has been deferred until we have more certainty around the duration and impact of the Victorian Government lockdown of the Melbourne metropolitan area.

### Net debt position

Net debt as at 30 June 2020 of $3.3m (Net debt as at 30 June 2019 of $4.1m). The Group continues to take action to reduce inventory levels, tightly manage collections and manage operating costs to improve our cash position.

### Balance sheet

The Group has a solid working capital position with Current Assets exceeding Current Liabilities by $42.7m at 30 June 2020.

### Significant items

The FY20 result was impacted by a number of one-off significant items:

- Redcliffe WA lease. As a result of the difficulty we are having sub-leasing major parts of this large facility, and as required under Australian Accounting Standards, we have recorded a one-off, non-cash onerous lease provision of $12.2m covering the remaining seven year tenure of the untenanted portion of the property.
- Inventory. We have taken a one off write off of $6.5m, being legacy unsaleable slow moving and obsolete stock. The write off enables us to downsize the Thomastown DC and free up space in the branch network to expand our complimentary range of products.
- Recognition of Deferred Tax Asset - Tax Losses of $13.1m.

### Dividends

The Board has decided not to declare a final dividend for FY20. The Group has franking credits of $11.1m available.

### Outlook

Activity in our major end markets (commercial construction, infrastructure and mining) has remained solid to date. However, there is a high level of uncertainty surrounding the scale and duration of the COVID-19 pandemic and the potential impact in these markets. It is too early to understand the full impact of the current Victorian Government Melbourne metropolitan lockdown.

While it is impossible to predict the full impact of the COVID-19 pandemic on the Group, we remain confident that we have the right strategic plan, the right people and operate in markets that will enable us to navigate the situation and take advantage of opportunities as they arise.

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

*For further information contact:*

**Robert Bulluss**
**Chief Executive Officer and Managing Director**
(03) 9205 8219