



Coventry Group Ltd

Operational Update

June 2014

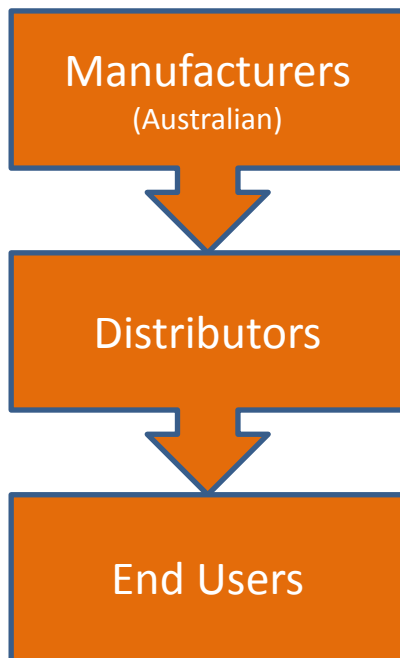
FASTENER AND HARDWARE BUSINESSES



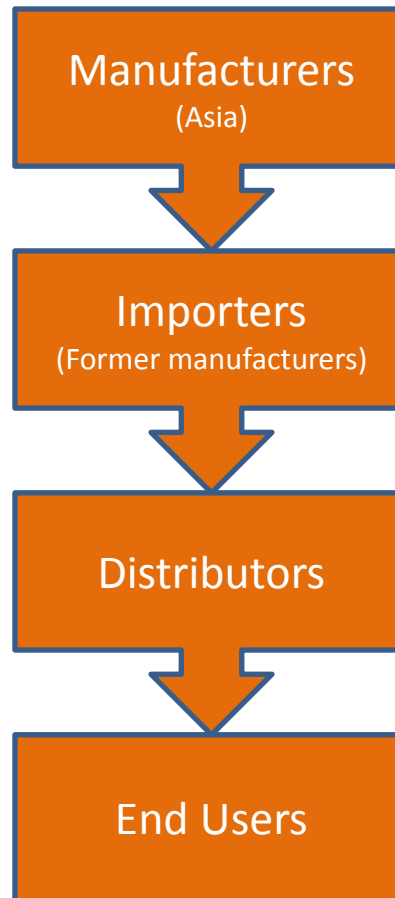
Fastener Industry Structure: Past & Present

Asian manufacturing has facilitated a fracturing of industry structure

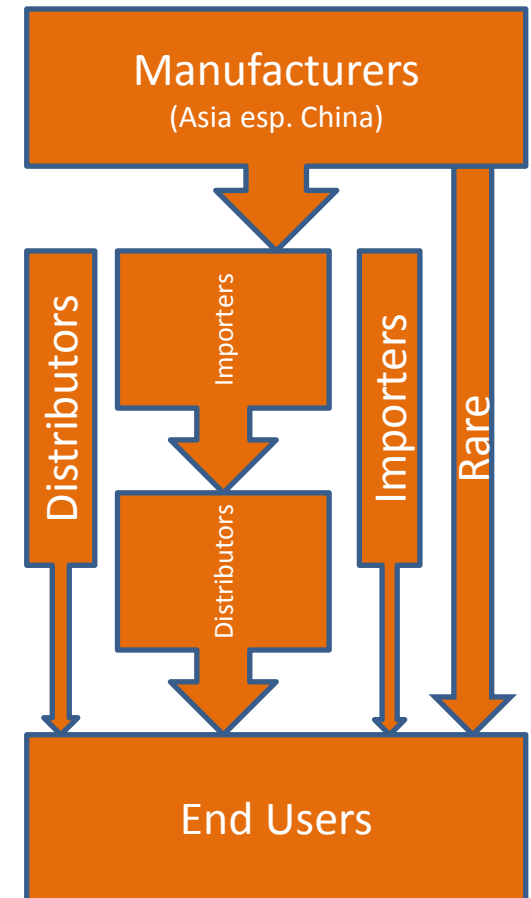
1980s



1990s

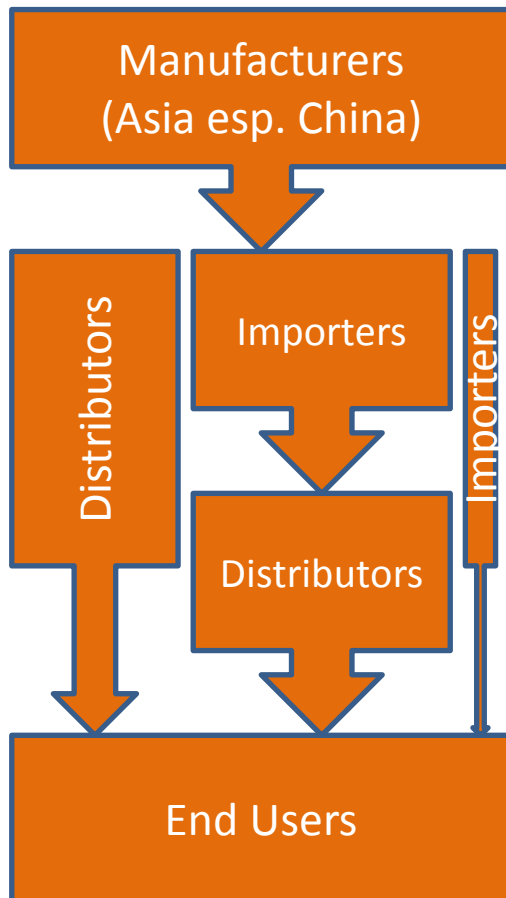


Present



Fastener Industry Structure: Future

Large distributors & importers best placed to drive a more rational industry structure



Possible Future Outcomes

- Distributors continue to expand house brands for most common commodity lines
 - Scale important
 - MOQs limit direct imports
 - Current Konnect imports a significant minority.
- Importers reposition themselves as aggregators of the “tail” to meet MOQ requirements.
- Some importers already closed: Fewer importers in the future doing more volume individually than today.
- Branded products will still be important and drive different manufacturing and distribution outcomes.

Restoring a great business

Fastener Recovery Underway

- Fastener recovery centred around four themes
 - Strategy
 - Operational Efficiency
 - Prices
 - People

Fasteners Strategy

Leverage scale to deliver low cost service

- Working hard to differentiate...
 - Branch Network
 - People
 - Range/Availability
- To compete, must be low cost/ competitive value
 - More imports
 - Better local sourcing

Progress on key objectives

Progress Evident

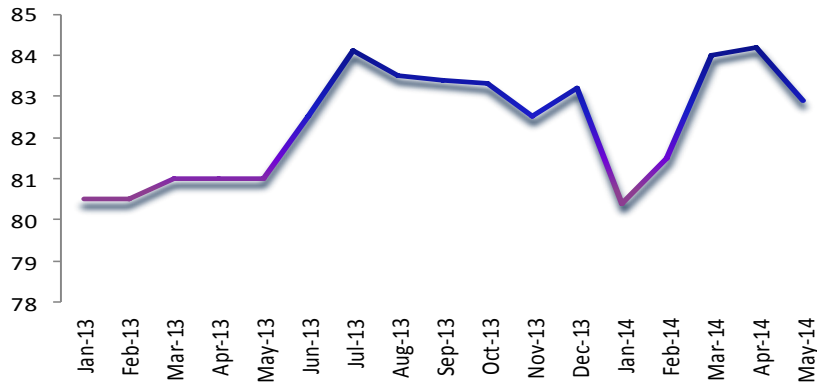
- **Fasteners**
 - Re-branded ANZ to Konnect to reduce operating expenses and simplify import logistics
 - Invested in training to upskill and slow turnover
 - Increased import program
 - Expanded Branch footprint
 - Get control of pricing
- **Artia**
 - Exited Furniture producing \$4m in cash
 - Relaunched hardware product line up
 - First Artia locations opened in Konnect stores



Improving Service

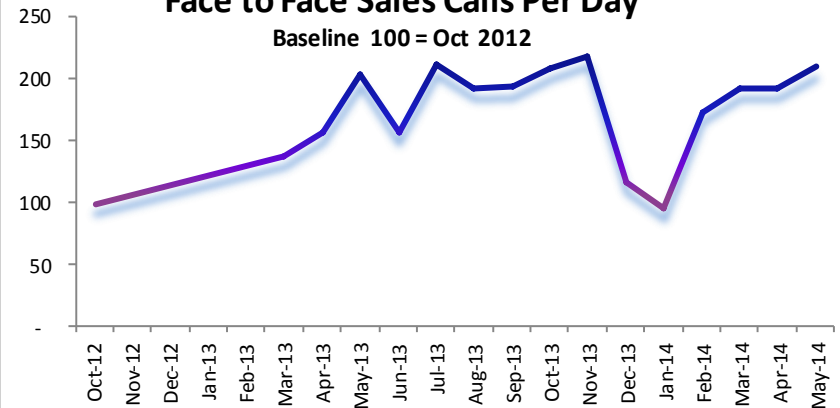
Good Service is Cheap Service

Fasteners DIFOT

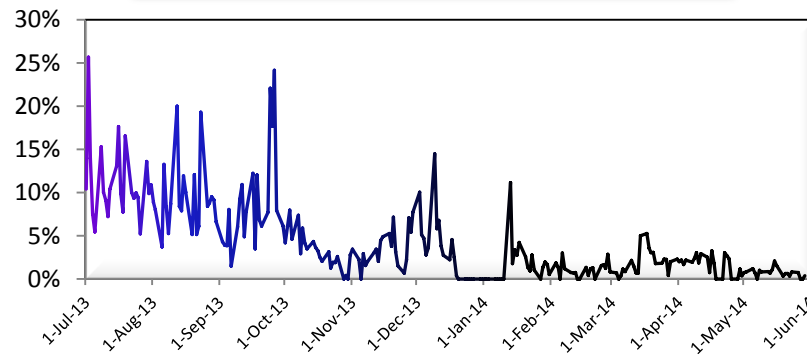


Face to Face Sales Calls Per Day

Baseline 100 = Oct 2012



Call Centre Dropped Call Rate

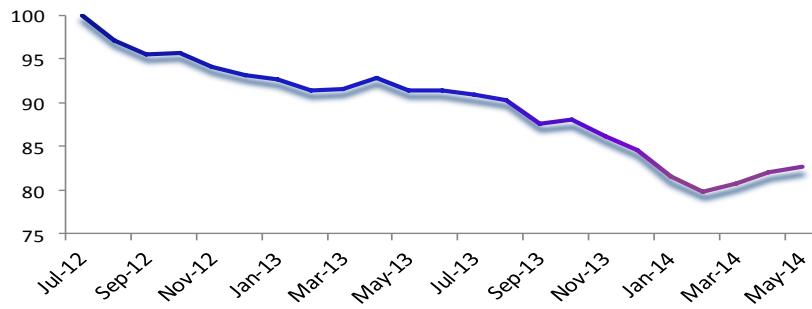


Cost Reduction Update

Cost will continue to fall

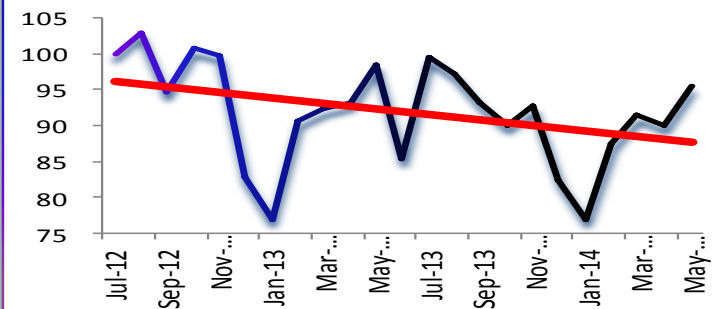
Head Count Index

Baseline 100 = July 2012



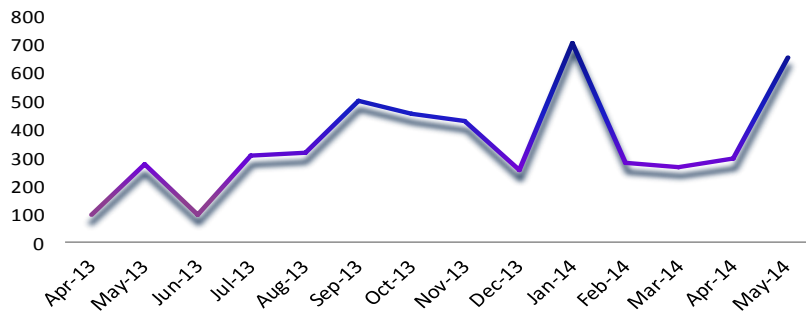
Fasteners Total Monthly Expenses

Baseline 100 = Jul 2012



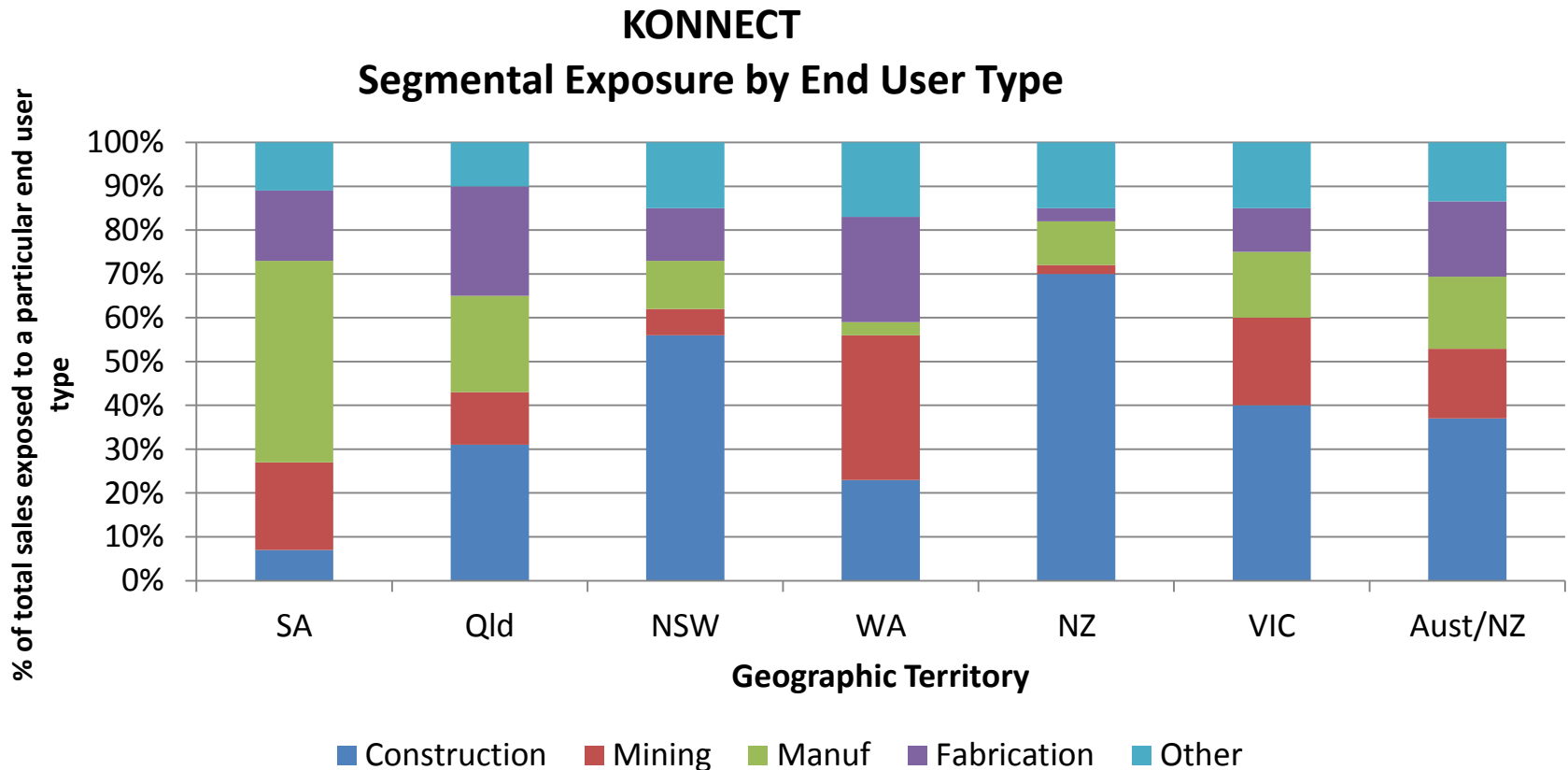
Import Receipts

Baseline 100 = Cal 2012



Every Regional Market is Different

Konnect is a multi-local business



Currency Implications

Softer AUD better in the long term, but some short term pain expected

- Impossible to predict with any certainty
- Expected to go down which is likely to be a positive to any industry that is “cost plus” focussed
- Timing issues will create low margin work
- Short term turbulence as lower value stock gives some players a temporary advantage

Price controls

Margin gains hard won but will hold

- Price control objectives
 - Important in times of currency volatility
 - Increase margins
- Margins went up but volume dropped
- Emphasis on optimal local pricing
- Market share returning
- Ultimately expect to make small margin gains and return to previous volumes

Artia Strategy

Clear and simple strategy

Differentiation

- Brands are strong
- Product innovation is common
- Price is important, but far from the most important
- Product management and selling are key skills



Creating a great business

Clear & Simple plan to Deliver the Strategy

Artia improvement centred around four themes

- Exit furniture
- Fix product offering of hardware
- Leverage distribution footprint of fasteners
- Focus on selling

Exiting Furniture

First of four steps has been delivered

Decision to exit announced 2 May 13

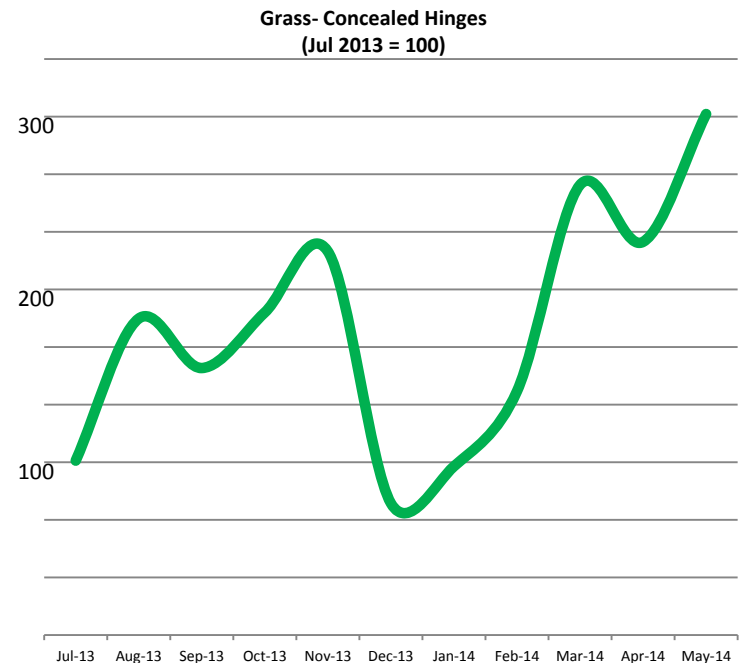
- Difficult business to operate which complicated warehousing arrangements
- All but one Distribution Centre closed by 30 June 14
- Stock was \$4.5m on 2 May 13, \$0.25m on 31 May 14
- Taken 6 months longer than expected

Fix Hardware

Hardware line-up improved

Create a predictable & comprehensible product offering

- Previous product offering was unfocussed and broad offering 3,400 SKUs from 6 major suppliers
- New product offer focuses on complete sets
- New hardware launched Nov 13 and May 14
- SKUs significantly reduced to 2,000



Focus on Brands

Branded Space is defensible

G*GRASS®



TRADECRAFT



artia

Focus on Brands cont.

Greater Depth in Smaller number of Brands

PREVIOUSLY

GOOD	
BETTER	1
BETTER	2
BEST	



NOW

GOOD	
BEST	

Leverage Fasteners Distribution

High Growth Potential from Low Market Share Base

Reduce cost and increase reach via fasteners

- Global hardware players have scale
- 2 sales forces, 1 distribution/admin system
- Fasteners will take over the distribution of hardware (30% cheaper)
- Reduce Distribution centres by 6 (5 already closed)
- Regional fastener branches to be targeted to sell Artia with 1 pilot underway and 4 more planned

Focus on selling

Nimble, Focussed Sales Team

Single purpose of selling combined with good product offer and selling tools

- Artia is a single purpose sales force
- Provide basic selling tools
 - Catalogue
 - Working Models & Samples
 - Product Training
- New product cycle driven by product managers

Summary

Some progress, but lots of work to do

- Clear focus to strengthen each business
 - Cost out
 - Combined distribution and administration
- Separate sales efforts
 - Focus on availability & branch network for fasteners
 - Focus on product portfolio and availability for hardware



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KONNECT

artia

