

**COVENTRY GROUP LTD**  
**AGM – CHAIRMAN’S AND CEO’S ADDRESSES**  
**25 OCTOBER 2018**

Good morning ladies and gentlemen and welcome to the 82nd Annual General Meeting of Coventry Group Ltd.

My name is Neil Cathie and I am the Chairman of your Board and this meeting. After an absence of three years we are pleased to be holding our Annual General Meeting back in Perth and in the state where the Company was founded in the 1920’s.

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I would now like to introduce the members of the board - Andrew Nisbet, James Todd and Robert Bulluss (our MD & CEO). Our company secretary is Lisa Deramond and she joins us via telephone from Melbourne.

My Chairman’s report is contained in the 2018 Annual Report and I don’t intend to repeat that content here. It is more important that you all hear from Robert who will provide an update on current initiatives, trading and outlook.

Ladies and gentlemen, our Managing Director and CEO, Robert Bulluss.

# 2018 Annual General Meeting

25 October 2018



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# Coventry Group

Coventry Group Ltd (ASX: CYG) delivers innovative industrial solutions to the mining, construction and manufacturing sectors.

# Company overview

Coventry Group Ltd (ASX: CYG) delivers innovative industrial solutions to the mining, construction and manufacturing sectors. We supply a range of fastening systems, cabinet hardware systems and hydraulics, lubrication, fire suppression, refueling systems and products.



## Trade Distribution (TD)

Comprises Konnect fastening systems and Artia cabinet hardware systems through a wholly owned branch network (42 in Australia and 14 in New Zealand) selling to customers in mining, construction and manufacturing industries.



## Cooper Fluid Systems (CFS)

Designs and manufactures hydraulics, lubrication, fire suppression, refueling systems and products to customers in the mining, construction and manufacturing industries through 11 branches in Australia.

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

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

### OUR VISION

To be an innovative Industrial Supply Group achieving sustainable profitable growth operating through specialist business units.

### OUR VALUES

We value Respect, Fairness, Teamwork, Integrity and Professionalism.

Above all, we value Our People and Our Customers.

# Our story

## 1929

Mr Ronald James Kyle acquires a car dealership from a liquidator and Coventry Motor Replacements is born

## 1929 - 1965

The business prospers  
Appointed both Ford and Holden products distributor  
Acquires Raphaels Pty Ltd in 1958  
Grows to 6 branches in WA with 450 people

## 1966

Listed on the ASX

## 1967 – 1983

Acquires a number of businesses:  
1972 – Industrial Sales Holdings  
1975 – West Coast Automatics  
1977 – Motor Traders in SA (first interstate expansion)

## 1984 – 2000

Numerous acquisitions including diversification into a number of Fasteners businesses and Cooper Fluid Systems  
Establishment of Coventry Auto Parts (CAP) in 1998  
By 1999 the Group has 1,900 people

## 2001 – 2006

Group revenue reaches \$500m.  
Losses occur in CAP business.

## 2007 – 2016

Sale of automotive divisions  
Period of declining sales in remaining businesses.

## 2017

New senior management team  
Board restructure  
Sale of AA Gaskets  
Trade Distribution Australia strategy reset

## 2018 & beyond

Highly focused board and management team  
Business is focused on 2 verticals with key competitive advantages  
Aggressively look to implement turnaround and drive profitable growth

# Coventry's value proposition

## Renewed focus on our people and our customers

- Training
- Business Development
- Technology enhancement

## Deliver service excellence

- Quality products
- Stock availability
- Employee expertise
- Geographic coverage
- Agility

## Improved financial outcomes

- Grow sales
- Improve margins
- Reduce DC infrastructure costs
- Leverage existing infrastructure
- Return to profitability



# FY18 performance

Positive progress towards sustainable profitable growth



# FY18 overview

- |   |                              |  |
|---|------------------------------|--|
| 1 | <b>People &amp; safety</b>   | <ul style="list-style-type: none"><li>• The Group is committed to the health, safety and well being of our personnel</li><li>• 8 minor Lost Time Injuries in FY18</li></ul>  |
| 2 | <b>Leadership team</b>       | <ul style="list-style-type: none"><li>• Strengthened with the appointments of Rod Jackson (Chief Financial Officer), Tracey Gibbins (General Manager – People, Safety, Well Being and Quality) and Ken Lam (Chief Information Officer)</li></ul>   |
| 3 | <b>Business initiatives</b>  | <ul style="list-style-type: none"><li>• Implemented a wide-ranging program of manageable disruption touching many parts of our operations (particularly Trade Distribution Australia)</li><li>• Focus remains on the customer by providing the best service levels through quality products, stock availability, expertise and agility combined with our geographic coverage. This is delivering sales growth and margin improvement</li></ul> |
| 4 | <b>AA Gaskets sale</b>       | <ul style="list-style-type: none"><li>• Successful restructure and sale of the business completed in December 2017 generating \$13.1m cash for CGL (72.5%)</li></ul>   |
| 5 | <b>Financial performance</b> | <ul style="list-style-type: none"><li>• Sales +11.7% (excluding the discontinuing operations of AA Gaskets to \$168.7m (\$151.0m FY17))</li><li>• Underlying EBIT improvement of \$6.4m to a loss of -\$6.1m (-\$12.5m FY17)</li></ul>   |
| 6 | <b>Balance Sheet</b>         | <ul style="list-style-type: none"><li>• Net Tangible Assets of \$1.30 per share (as at 30 June 18)</li><li>• Net cash of \$5.0m with no debt (as at 30 June 18)</li></ul>  |

# FY18 financial highlights

- Sales +11.7%
  - Up to \$168.7m (\$151.0m FY17)
  - Increased average stock availability across all branches of 96% (FY17: <75%)
- Underlying EBIT improvement of +\$6.4m
  - Full year loss of \$6.1m (up from -\$12.5m in FY17)
- Loss from Continuing Operations –\$8.3m
  - Loss reduced by \$29.4m from \$37.7m loss in FY17
  - Excluding discontinuing operations of AAG and the profit on sale of AAG business
- Statutory net profit after tax = \$6.0m
  - Includes 5 months of operations of AAG and profit on sale of the AAG business of \$14.3m

(\$m)	FY18 <sup>(1)</sup> <sup>(2)</sup>	FY17
Revenue from sale of goods	168.7	151.0
Underlying EBITDA	-4.7	-9.7
Underlying EBIT	-6.1	-12.5
Loss from Continuing Operations	-8.3	-37.7
Net cash	5.0	-2.9
Net Tangible Assets p/s (\$)	1.30	1.30
Share price at year end	1.35	0.60

## Notes:

1. Excluding the discontinuing operations of AA Gaskets
2. Excluding the profit on sale of the AA Gaskets assets

# Business unit performance

## **TDA continues to show signs of improvement – more to do...**

- Sales up 3.5% on FY17
  - First positive year-on-year improvement in 10 years
- Underlying EBIT improvement of \$1.4m on FY17
  - Still loss making division (-\$6.1m in FY18)
  - FY19 will see the full year impact of sales & margin initiatives; loss making branch closures and consolidations and the DC rationalization project

## **Excellent result from TDNZ with improvement in all key metrics**

- Sales up 15.1% on FY17
- Underlying EBIT up 36.3% on FY17
- EBIT margin of 10.5%

## **Overall an outstanding result from CFS**

- Sales up 20.9% on FY17
- Underlying EBIT up 89.8% on FY17
- EBIT margin of 7.6%

# FY19 trading update

Financial results are continuing to improve

# FY19 trading update

- **Group**
  - Financial performance continues to improve
  - Sales up 4.2% on PCP (negatively impacted by TDA one off Chevron order in FY18 for \$838k and closed branches impact \$237k)
- **CFS**
  - Sales up 14.9% on PCP. Continuing rapid growth in a positive market setting
  - Major project win for H2 (\$1.5m)
- **TDNZ**
  - Sales up 8.7% on PCP
  - Solid start to year
- **TDA improving but not at the speed we desire**
  - Excluding the Chevron order and closed branches, sales in line with PCP
  - QLD region sales result down on PCP. Action has been taken with appointment of Regional Manager with extensive experience in fasteners and the return of an experienced past employee into a key Branch Manager role. The sales force has also been strengthened. This will arrest the decline and return the region to growth in H2.
  - Recent appointment of experienced Contract Manager to accelerate growth in major contracts large tenders.
- **Outlook**
  - Remains positive.
  - Markets are growing.
  - Financial results continue to improve
- **All plans geared to return to profitability in FY19**

## Torque Industries acquisition

- Expected completion on 31 October 2018
  - 8 months profit contribution
  - FY19 forecast EBIT contribution in the order of \$1.7m

# Torque Industries acquisition

Completion 31 October 2018

# Torque Industries – strategic rationale

✓	Diversified customer base with low reliance on the mining and resources markets
✓	Meets Coventry's key acquisition criteria:
✓	<ul style="list-style-type: none"> <li>Industrial supply market</li> </ul>
✓	<ul style="list-style-type: none"> <li>&gt;\$10m turnover</li> </ul>
✓	<ul style="list-style-type: none"> <li>Profitable business</li> </ul>
✓	<ul style="list-style-type: none"> <li>Management to be retained</li> </ul>
✓	<ul style="list-style-type: none"> <li>Clear post-acquisition integration and growth strategy</li> </ul>
✓	<ul style="list-style-type: none"> <li>Disciplined approach to value</li> </ul>
✓	<ul style="list-style-type: none"> <li>Ensure ability to adapt to ASX corporate culture</li> </ul>
✓	Aligned with plans geared to return the Group to profitability in FY19
✓	Positions Cooper Fluid Systems as a leading engineering services business in South Australia
✓	Attractive acquisition multiple of 4.0x FY19 forecast EBIT



## Diversified Engineering Services

Hydraulics ■ Pneumatics ■ Filtration ■ Engineering & Automation

# Torque Industries – financial impact



## Attractive acquisition multiple

Acquisition price	→ \$10.5m
Sales FY19 forecast	→ \$14.0m
EBIT	
• FY19 forecast	→ \$2.6m
• Average FY15-19	→ \$2.3m
• FY19 forecast EBIT Margin	→ 18.6%
Acquisition multiple	
• Based on FY19 EBIT	→ 4.0x
• Based on average EBIT	→ 4.5x <sup>1</sup>



## Delivers immediate earnings to CYG

- Acquisition aligned with CYG's plans to return to Group profitability in FY19
- Expected completion on 31 October 2018
  - 8 months profit contribution
  - FY19 forecast EBIT contribution in the order of \$1.7m
- Positive impact on EPS, ROIC and ROE



## Adds to CYG's ability to generate cash

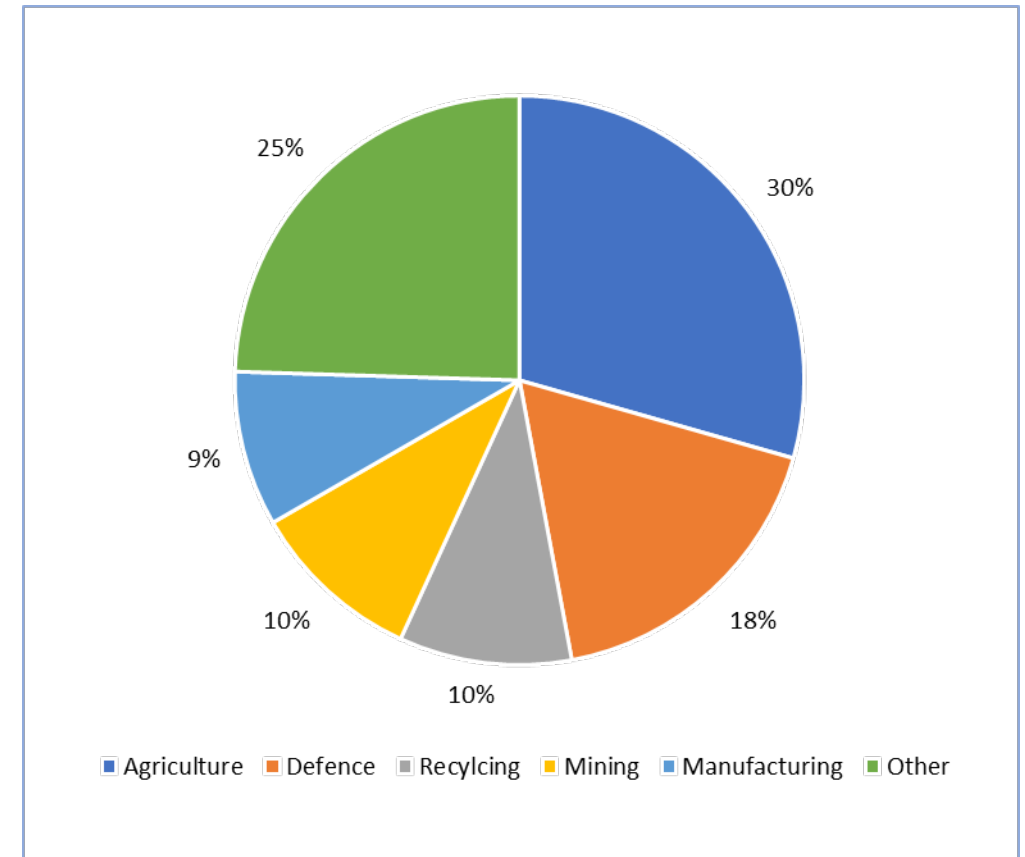
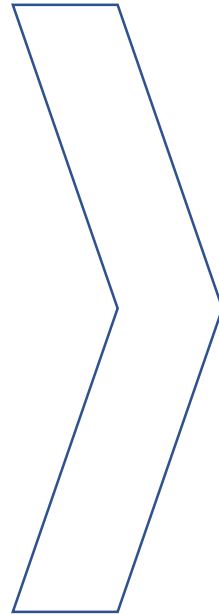
- High EBITDA cash conversion
- Low capex requirements



# Torque Industries – Market Segments

## Key Market Segments

- Defence
- Agriculture
- Recycling
- Manufacturing
- Mining



Source: Coventry and Torque

# Torque Industries – growth opportunities

## Growth Opportunities

- Ship building
  - The Future Submarine program
  - The Future Frigate program
- Infrastructure
- Renewable energy
- Industrial
  - Manufacturing repairs and maintenance
  - Heavy machinery repairs and maintenance
  - Fluid power equipment distribution

Renewable energy



Ship building



Industrial



Infrastructure demand



# Growth strategy

October 2018

# Growth strategy – TDNZ

- 1 **Increase market share**
  - Invest in sales and business development resources
  - Improving service and value proposition
  - Investing in branch network layouts and resourcing
  - Growth in the Construction, Cabinet Making, Industrial Customers and Manufacturers (OEM markets)
- 2 **Greenfield expansion** New geographic regions plus metro expansion
- 3 **Existing network growth** Expansion of store capacity in Auckland
- 4 **M&A** Explore growth industries (e.g.construction market)
- 5 **E-commerce** Development of e-commerce capabilities





# Growth strategy – TDA

- 1 **Increase market share**
  - Invest in sales and business development resources
  - Improving service and value proposition
  - Investing in branch network layouts and resourcing
  - Growth in the Construction, Cabinet Making, Industrial Customers and Manufacturers (OEM markets)
- 2 **Joint targeting of potential customers** Re-engagement with key supply partners
- 3 **Greenfield expansion** New geographic regions plus metro expansion
- 4 **New products** Expand product range with new products e.g. Segnut
- 5 **M&A** Explore growth industries (e.g. construction market) and/or new geographic regions
- 6 **E-commerce** Development of e-commerce capabilities
- 7 **DC optimisation** Continued cost reductions from optimisation plan, EDI and ERP



## WHAT IS A SEGNOT?

It's a solution to a problem

It's a Nut that always, safely comes off, really fast.

- ▶ Doesn't suffer from **nut seizure**
- ▶ Comes with an integrated release mechanism
- ▶ Simple construction: Three nut Segments and a Sleeve



# Growth strategy - CFS

- ① **Increase market share**
  - Delivering service and value proposition
  - Growth in the Hydraulics, Fuel Dispensing, Re-fueling, Technical Services and Training markets
  - Further diversification into Agriculture, Oil and Gas, Forestry, Defense, Manufacturing and Transportation markets
- ② **Target new sectors**      Growth in the hydraulic cylinder repair market
- ③ **Greenfield expansion**      Geographic expansion
- ④ **New products**      New Cooper Built product development
- ⑤ **M&A**      Acquisitions to diversify capability outside mining and resources
- ⑥ **E-commerce**      Development of e-commerce capabilities

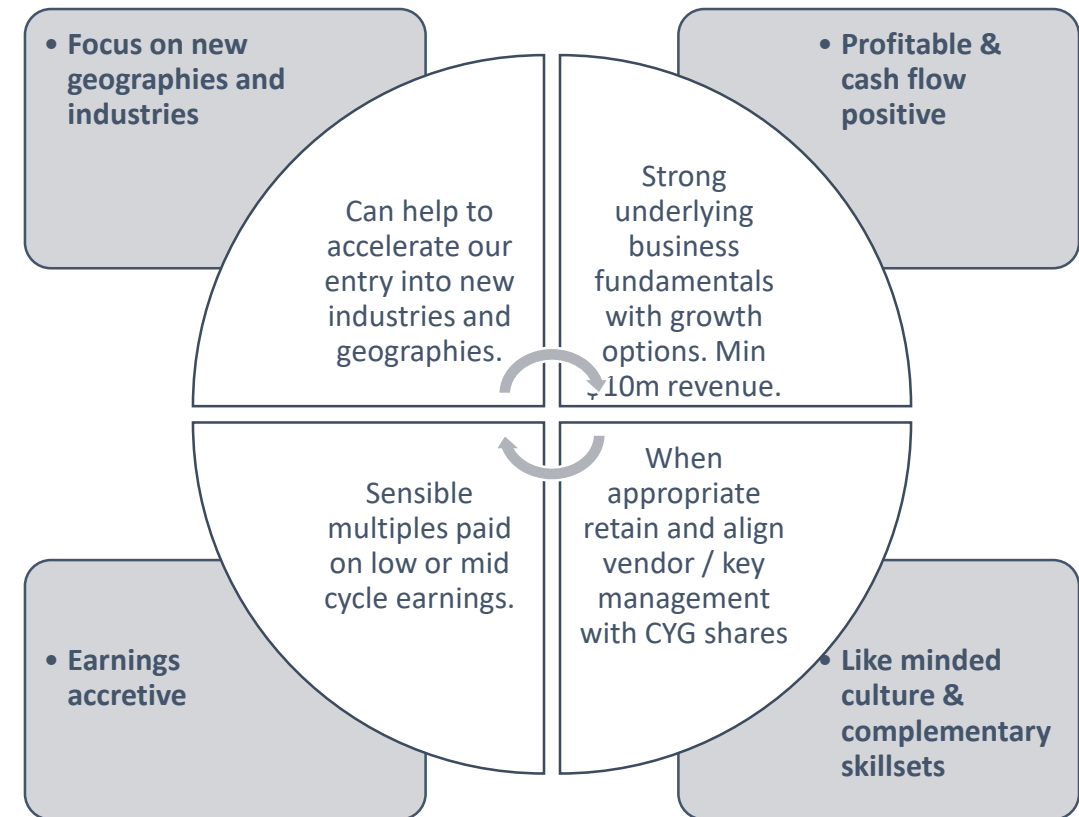
Growth strategies are aimed at diversifying into new markets to lessen the cyclical nature from the mining and resources sector



# Acquisitions

The Group will take a highly disciplined approach to acquisitions with strict criteria.

- A return to pursuing acquisition opportunities represents a pivotal turning point for the company after years of divestments and revenue erosion.
- We have now largely stabilised our core operations and have a team in place which has a very successful history of growing businesses through sensible and strategic acquisitions.
- We are not an industry “roll-up” story rather we will take a very strategic approach to assessing acquisition opportunities that may help to accelerate our entry into new geographies or industries.
- Acquisitions will be integrated with detailed 100 day and longer term integration plans. Systems and processes will be aligned with the Group and efficiencies will be extracted.
- Funding will be through a mix of new equity, bank debt and operating cash flows.
- We already have a pipeline of interesting opportunities where the vendors have no obvious succession planning in place. We will seek to avoid competitive processes where possible and negotiate on an exclusive basis.



# Summary and outlook

October 2018



# Summary and outlook

① Experienced team is in place	Focus on sales growth and sustainable profitable growth
② Group sales growth	Has continued in early stages of FY19
③ Our key markets are performing well	In mining and resources, construction and industrial sectors
④ Strong balance sheet	No debt and finance facilities in-place and available
⑤ FY18 initiatives implemented	Financial benefits to be fully realised in FY19
⑥ Growth opportunities exist in all business units	Market share, new branches and acquisitions



**All plans geared to return the Group to profitability in FY19**

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