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COVENTRY GROUP STRATEGIC REVIEW

- Whole of business review
- Rationalisation of distribution centres
- Cost of doing business reduced significantly
- Plan to return the company to profitability

A comprehensive review of the strategy and operations of Coventry Group (ASX: CYG) is being undertaken by the new leadership of the company. Led by CEO and Managing Director, Peter Caughey, and overseen by the refreshed board chaired by Neil Cathie, the review is considering all aspects of the company.

Mr Cathie, Non-Executive Chairman, said: “Significant change is required at Coventry Group due to the financial and structural headwinds impacting all business units. The restructure announced today will transform Coventry into an organisation that is more able to respond to the realities of a keenly competitive and cyclical marketplace.”

New business structure - One CGL

Coventry Group will be restructured into two core business units; Konnect/Artia and Coopers. This will be supported by a more efficient centralised business support unit. AA Gaskets (72.5% owned) will continue to be managed as an investment and, where possible, the benefits of the Group’s scale will be leveraged.

Mr Caughey said: “The more streamlined Coventry Group will be refocused on delivering a highly efficient distribution model. The restructure will lower the cost-of-doing-business by removing a number of duplications in logistics, back office services and administration functions.”

The IT Solutions business, MSS, has been determined as non-core. It will be exited by the end of March 2015. This will eliminate the current operating EBITA loss of approximately $0.6 million in the first half.

Restructuring program

Supply Chain consultants XAct Solutions have been engaged to conduct a thorough review of the distribution network. Analysis of the needs of the Group is still underway but has already concluded that the Group’s volumes can be efficiently managed through four distribution locations. As a result, the Sydney and Adelaide distribution centres will be closed effective from 30 June 2015. In addition, capital expenditure in the remaining distribution centres is required to enhance operational efficiency. This is forecast to reduce annual operating costs by approximately $4 million within two years.

Coventry Group currently employs around 680 people. As a result of the restructuring program, this will be reduced by approximately 100 positions at a cost of $1.6 million. This initiative is expected to reduce operating costs by approximately $7 million per annum.

Mr Caughey, commented: "Over time, the organisational support structure had become too big for the size of the company. Regrettably, the restructure will mean job losses in the business units as well as the corporate office. Product offerings and customer service will not be impacted by the restructure as the changes are focused on logistics, back office and administration activities."

Total restructuring costs, including redundancies and distribution centre closures, are estimated to be in the order of $6-7 million.

Balance Sheet

Following the decision to close MSS and restructure the Group, the Board is undertaking a review of the holding values of all assets and liabilities.

Acquisitions

The previously stated acquisition strategy, whilst not discontinued entirely, has been determined by the Board to be a low priority. Going forward, all efforts will be focused on restoring the existing business to profitability.

Current performance

For the first half of FY15, underlying Group operating losses after tax forecast at the Company's AGM on 7 November 2014 have increased to $2.5-3.5 million. This is before taking into account any one-offs, non-recurring items or costs associated with the restructure.

Mr Caughey said, "Current operating conditions are very challenging across the Group. Competition in the fasteners business, which was already strong, has intensified following the softening in the mining sector. Temporary effects from the lower Australian dollar are also noticeable. Volumes in Cooper Fluids Systems are also being negatively impacted by the downturn in the mining sector. As a result, savings from the restructure are being fast-tracked to ensure the Group returns to positive earnings at the earliest opportunity."

In light of current business conditions, the Board is reviewing the dividend intentions as announced on 1 July 2014 to determine whether any changes are required. Future dividend policy is also being assessed to ensure it appropriately reflects the sustainable profits of the Group.

Details of the timing, costs and financial benefits of the restructure and any changes to dividend intentions will be provided with the half year results announcement on 26 February 2015.

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