Coventry Group Ltd

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ASX RELEASE

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2017 Half Year Results

Coventry Group Ltd

Highlights

- 18 months into turnaround
- Difficult trading conditions in the first half (signs of improvement in quarter two)
- Restructuring of the business is largely complete with transformation underway
- Sales -8% to $85.3m ($92.1m pcp)
- Underlying EBITDA -$3.9m ($1.2m pcp)
- Net loss after tax of -$22.2m (after $7.9m of non-cash impairments and $6.9m de-recognition of Deferred Tax Assets)
- No interim dividend declared

Group financial results

During the six months ended 31 December 2016 the Group recorded a Net loss after tax of $22.2m after $7.9m of non-cash impairments and $6.9m de-recognition of Deferred Tax Asset. Quarter one performance was very poor and unanticipated with quarter two showing some improvement across parts of the network.

Divisional performance

The Group generated varied results across the divisions and geographies. Australian Trade Distribution revenues were down sharply in some geographical regions and performing well in other regions. Trade Distribution continues to perform strongly in New Zealand with new sites planned. AA Gaskets had its best first half period ever whilst Coopers continues to contribute positively in tough economic conditions.

Restructure program update

The restructure has now been formally completed with some operational efficiencies starting to be generated. However, due to the reduction in sales the full effects of the restructure are 12 months behind plan.

Impairments and Deferred Tax Asset implications

Given the continuing poor financial performance of the business, the board has reassessed the carrying value of its assets and determined to make a non-cash impairment of $7.9m comprising:

- $2.1m in fixtures and fittings associated with a leased Perth warehouse;
- $3.5m in fixtures and fittings across the Trade Distribution branch network; and
- $2.3m in intangibles relating to software.

The impact on net tangible asset backing at 31 December 2016 is a reduction of $0.16c per share.

The board has reviewed the carrying value of the deferred tax asset recognised for the carry forward of unused tax losses and decided to de-recognise $6.9m. This has no impact on net tangible asset backing per share.

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Additionally, a detailed review of inventory will be undertaken in the second half of F17 to ensure that the inventory continues to be valued appropriately.

Profit Improvement Plan

Management implemented a Profit Improvement Plan in September 2016 to arrest the downturn in performance across the group. Although the plan has only been operational for three full months, early results have been positive. The key focus of the plan is to decrease costs and increase sales profitably by focussing on people, IT systems, optimisation of the branch network and overhead efficiencies.

Balance sheet

The Group's net cash position was $5.3m as at 31 December 2016 ($3.5m as at 30 June 2016). A $10m short-term working capital facility was introduced that is backed by the Group's high quality Accounts Receivable book. Group net tangible assets per share is $1.69 per share ($2.03 as at 30 June 2016).

Dividends

As a consequence of the loss recorded for the six months ending 31 December 2016 the Board has determined that no interim dividend be declared.

Outlook

Trading in the third quarter (to date) is showing sales and margins flat compared to last year. It is too early to call the 'bottom of the cycle' and with such unexpected and severe gyrations throughout 2016, it is difficult to provide shareholders an outlook with any high degree of confidence.

For further information, please contact:
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