Coventry Group Ltd

ABN 37 008 670 102

Shareholders Half Yearly Report

Six months ended 31 December 2013

21 February 2014

Dear Shareholder

The Directors of Coventry Group Ltd present their report on the results of the Company and its controlled entities (the Group) for the six month period ended 31 December 2013.

KEY POINTS

The Coventry Group continues to deploy established strategy in challenging markets.

Trading:

Profit before tax	**$0.5M**
Tax	**- $0.3M**
Net profit after tax	**$0.2M**
Net cash and term deposits $53 million	

- **Revenue from operations down 12.8% to $107.9M due to tough trading in all the markets the Group operates in and the exiting of Artia's furniture business.**
- **Gross profit percentage in the period was 40.5% (40.1% in pcp).**
- **The Fasteners business reported a positive EBIT result of +$0.4M (-$0.5M in prior comparative period)**

Shareholder Returns:

- **Interim dividend held at 11cps fully franked**
- **Total Shareholder Return of 26.1% p.a. over the past 3 years**

Strategy – Executed To Plan:

- **Two small acquisitions were made in the period in key geographies for the Group, adding to the Fastener and Fluid Branch networks;**
- **Five branches have been setup as 'greenfield' sites or relocated, to grow geographic presence;**
- **Significant funds ($0.9M) were invested in IT assets to extend the breadth of Managed System Services (MSS – IS service provider) offering;**

Outlook – H2:

- **The general economy is stabilising and the mining sector is under transition from a construction phase to one of production, operations and maintenance. We do not expect economic conditions to change much in the second half whilst the business divisions are well placed to continue the operational improvements seen through the last half. Therefore we expect a material improvement in earnings in the second half, albeit still at a low level.**

RESULTS SUMMARY

	Six Months to 31.12.13	Six Months to 31.12.12	% Change
Revenue ($M)	107.9	123.7	-12.8
Profit before income tax ($M)	0.5	5.9	-91.2
Profit after tax ($M)	0.2	4.2	-94.5
NTA per Share ($)	3.58	3.72	-3.8
Net Cash & term deposits ($M)	53.0	52.8	+0.4
Earnings per share – basic (cents)	0.0	10.4	-100.0

The results were impacted by tough trading conditions, however Gaskets business performed well and the Fasteners business delivered a positive EBIT result (+$0.4M against a loss of -$0.5M in the prior comparative period).

DIVIDEND

The directors have declared a dividend of 11 cents per ordinary share, fully franked, payable on 17 March 2014 to shareholders registered as at 7 March 2014 (the record date). The dividend reinvestment plan will continue to be suspended. For the prior comparative period an 11 cents, fully franked, interim dividend was declared.

BUSINESS UNITS PERFORMANCE REVIEW

Coventry Fasteners and Hylton Parker Fasteners - NZ, now collectively referred to as Konnect

Konnect is a large player in the Australian and New Zealand markets in the distribution of fasteners and now has upgraded management and direction

During the period the Fasteners business announced a new trading name KONNECT SHOP ("KONNECT") replacing the two former names above to align better with its trade mark Konnect ™ and web site address, Konnect Shop. Konnect is being rolled out in both Australia and New Zealand, simplifying the marketing message and making all future communications to the customer base more efficient. Konnect has been used for some years as the house brand name for our Fasteners.

Sales for the Konnect business declined by 4.8% to $58.8 million compared to the previous comparative period. The reduction in sales is predominantly attributed to depressed levels of spend in the infrastructure and construction industries and the reducing manufacturing base. However, due to the reduction of costs as a part of the Konnect strategy, earnings before income tax improved by $0.9 million to $0.4 million in the period.

During the period trading conditions in the Konnect business have remained difficult with intense competitive pressure. These adverse conditions and reduced customer spend have been offset by savings in operating costs, which continue to flow from the 3 year Konnect strategy as it is rolled out. The expected goal of this strategy is to deliver greater returns from the capital already invested in the business.

As communicated in the presentation to shareholders at the AGM in October 2013, a key initiative is to relocate branches to adjust the physical 'footprint' and cost to the revenue that is generated in the area. Where we believe there is a geography which can generate sufficient revenue to support a branch we plan to set up 'green field' operations. These address both the overall operating cost structure of the business and the sales trend. In the 6 month period 5 branches have been acquired, set up or relocated. The business is planning to accelerate this number in line with the established strategy. This is in contrast to some competitors who have closed branches in the same period.

The business continues to deploy technology across the branch network to improve efficiency and internally have a higher proportion of staff in 'customer facing' roles than has been seen historically.

In the period there has been a reduction in the capital employed by the business which is reflective of management's focus to match the deployment of resources to the returns being achieved.

Artia

Artia has rationalised its product range to cabinet hardware only, facilitating supply chain synergies with the Fasteners business

Sales for the Hardware business declined by 16.9% to $10.0 million compared to the previous comparative period. The business recorded a loss before interest and tax of $0.9 million (loss $0.5 million – 31 December 2012) and has sold the majority of the furniture inventory, with a gross value of $1.3 million still to be sold in the second half of the 2014 financial year.

The Group made the decision near the end of the previous financial year to exit furniture, the 'orderly' exit is now broadly complete. Focus is on developing the cabinet hardware operations and gaining efficiencies from the integration of the Fasteners and Hardware supply chains.

AA Gaskets and NZ Gaskets

Gaskets is the market leader and is performing well

Sales for the Gaskets business decreased by 6.0% to $6.5 million compared to the previous comparative period. The business recorded a profit before interest and tax of $1.2 million, marginally down on the result achieved in the previous comparative period of $1.3 million. The business continues to benefit from the market differentiation it delivers through quality and the breadth of product range.

The impact from cheap imports continues to constrain the business along with extensions to the length of warranties vehicle manufacturers are prepared to offer. To counter these impacts the Gasket business continues to extend its range and depth of inventory to ensure the highest level of service to its customer base. It is anticipated to also benefit from increased numbers of vehicles in Australia and New Zealand.

Cooper Fluid Systems

Cooper Fluid Systems continues to transition and support the mining industry as it moves to a production phase

Sales for the Fluids business decreased by 28.1% to $30.4 million compared to the previous comparative period. Profit before interest and tax was $0.6 million, down 89.0% on the previous comparative period. The result, even though significantly below the levels achieved in the prior period, was due to a broad decline across the industry, not from a loss of market share.

The Fluids business operates mainly in the mining services and capital equipment spaces of Western Australia and Queensland. In the previous 18 months the division has been impacted, like many companies, by reduced capital spend and deferral of maintenance expenditure coming from major customers. During this time the Fluids business has continued to successfully develop relationships in the mining sector. The Group anticipates growth in mining will continue in the medium term although the split between capital spend and repair spend will shift. As a result effort and resources have been deployed to grow operations in the repair side of the business. A practical outcome from these efforts has been the set-up of the 'large cylinder' repair equipment in the Mackay branch. The level of customer enquiries from the resource industry has increased slightly in the closing months of the period.

In the period, the business continued to extend further its operations and now has a trading presence in the key areas of Newman (Western Australia) and the Hunter Valley (New South Wales). In addition to the work done in establishing 'green field' sites the Fluids business also expanded with the acquisition of the operations and assets of a company based in Toowoomba and St George (Queensland). The customer mix of the acquired business has a lower proportion of mining than the rest of the Fluids operations. Further growth from 'green field' and acquired operations is planned for the future.

Managed System Services (MSS)

MSS continues to gain critical mass in the Perth market

MSS markets the Group’s IT service capability and seeks to take advantage of opportunities in the IT sector. Since establishment, MSS has seen organic and acquired growth. The MultiPro business acquired in February 2013 continues to be absorbed into the wider MSS business creating opportunities to reduce costs. The Perth market is dominated by companies either directly in or adjacent to the resources sector, and spend has reduced due to the industry changes indicated above. Against this difficult background sales for the 6 months ended 31 December 2013 were $2.2 million, an increase of $1.5 million compared to prior comparative period. Management continue to look for additional sales opportunities and to drive more efficient operations to reduce costs further.

The Group made significant investments in IT infrastructure late in the period to both enhance the Group's systems and increase the services available for MSS to take to market. The benefits for sales should be seen in the second half of the current financial year.

Other Corporate expenses and income

In the period ended 31 December 2013 the net expenses of the unallocated businesses, including MSS, was $1.8 million, and in the previous comparative period it was $2.0 million. Management continues to decrease cost and human resource deployed in the support function areas.

Employees

Overall staff numbers fell from 825 (full time, part time and casuals) at 31 December 2012 to 769 at 31 December 2013. The decline is reflective of management's ongoing cost review process and alignment to our changing customer needs.

Balance sheet review

The Group net cash position, comprising both cash, cash equivalents and term deposits, fell slightly to $53.0 million ($54.5 million - 30 June 2013). The movement was broadly driven by the combination of dividend and acquisition payments exceeding the reduction in working capital and the net profit generated in the period.

Group working capital (defined as current assets less net cash and current liabilities) at 31 December 2013 was $58.0 million, this being $3.5 million lower than the balance at 30 June 2013. The main driver being the reduction in funds tied up in debtors. There has again been a reduction in bad debt being written off compared to the prior comparative period.

3 Year Total Shareholder Return (TSR) Calculation

Share price at 31/12/10	$1.78	
Share price at 31/12/13	$2.91	
Cumulative dividends over 3 years (Interim + Final paid in period)	$0.66	
Calculation of TSR based on the above data:		
Gain in share price	$1.13	
Share dividends	$0.66	The associated franking credits are on top of this value
	$1.79	
Gain in percentage terms	100.6%	
Implied annual compound growth	26.1%	

The Group has delivered positive total shareholder returns over the past 12, 24 and 36 month periods.

Roger Flynn
Executive Chairman

Share Registry

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