

**FY2017**  
**Third Quarter Update**  
**Coventry Group Ltd**

**Senior Management and Board Changes**

On 30 March 2017 Mr Peter Caughey decided to step down from his position as Managing Director and Chief Executive Officer and also from the Board of the Company and all its subsidiaries. Mr Caughey is to be commended for his endeavours over the last four years with Coventry Group and in particular his efforts associated with restructuring the Group.

The Group's Chief Financial Officer, Mr Robert Bulluss has been appointed acting Chief Executive Officer.

We are pleased to advise the promotion of Mr Mark Page as GM Trade Distribution Australia. Mr Page has spent the bulk of his career in Trade Distribution and has held senior operations positions in Australia and New Zealand for Reece Ltd. We are also pleased to advise the promotion of Mr Mike Wansink as GM Trade Distribution New Zealand. Mr Wansink has successfully led the New Zealand business for the past 5 years and this promotion signals the importance of this region's contribution to the overall result of the group.

**Revenue**

<b>Business</b>	<b>% Revenue Change Q3 F17 vs Q3 F16</b>	<b>% Revenue change H1 F17 vs H1 F16</b>
Trade Distribution	-1.8%	-10.9%
Coopers	+6.3%	-7.1%
AAG	+22.0%	+15.9%
CGL consolidated group	+3.1%	-7.5%

**Trade Distribution:** In the Konnect Fasteners business, the Australian markets in which the business principally operates have begun to show signs of improvement. Australian Trade Distribution is managed in three geographic regions:

Southern region comprises Victoria, southern New South Wales, ACT, South Australia and Tasmania. This market is growing with customers predominantly in the industrial and construction sectors. Southern region sales showed sustained improvement through each month of the quarter and its sales are up 19% on the same quarter last year.

Northern region comprises northern New South Wales, Queensland and NT. In this market we have low penetration of the building sector and remain highly exposed to the fortunes of the engineering construction sector. Northern region is not yet experiencing any recovery in sales, which are down in each month of the third quarter by circa 20% on the same month last year. The Northern region is a challenging environment and is a key focus for improvement by management.

Western region comprises Western Australia. This market has receded in recent years as a result of the end of the resources boom. The Western region was 23% down on the same quarter last year but there has been improvement in each month of the quarter.

In New Zealand favourable conditions have remained and this market is growing with customers predominantly in the construction sector. Sales are up 9.2% on the same quarter last year.

A number of key operational changes have been identified by the senior management team for implementation over the short and medium term to drive profitable sales growth in all regions and to optimise the supply chain. None of these require significant investment and all are considered important in the re-shaping of the business's value proposition and strongly focussing on the customer.

Two underperforming Australian Konnect branches were closed during the quarter (Richmond & Dubbo) and one opened in Mount Maunganui, New Zealand. Another branch in Timaru, New Zealand is due to open in May. The performance of several existing branches is being monitored closely and a number of prospective branches in New Zealand are being considered. Australian expansion is temporarily on hold with management's focus currently on improving underperforming branches.

The performance of the Artia (cabinet hardware) product category has been disappointing after a strong performance for F16 and on the east coast of Australia, where there has been a buoyant housing market, this represents an opportunity lost. New sales management plans are being developed for this category for implementation as soon as possible to restore the sales trajectory previously achieved.

**Coopers** has started to feel the rebound in mining related activity with the order book up considerably and with some of that order book already translating to higher revenues. The focus into specialty service areas continues to pay off as does a keen focus on costs.

**AA Gaskets** (72.5% owned by Coventry Group), continues to grow in Australia and New Zealand based on its strengthened credentials as a quality supplier to the auto-aftermarket industry.

### **Cash & Working Capital**

The net cash balance at 31 March 2017 was \$2.4m, \$2.9m less than the \$5.3m recorded at 31 December 2016. The net cash balance is adversely impacted by the seasonally low sales months of December and January and the timing of collections. Our working capital position at 31 March 2017 was \$52.1m (\$53.6m at 31 December 2016) and remains a solid foundation in the group's balance sheet.

### **Inventory Reduction & Review**

The Board has been disappointed in the lack of any meaningful reduction in inventory, particularly in the Trade Distribution business. New initiatives are being introduced across the network to proactively turn inventory into cash without compromising customer service and our value proposition.

The inventory review announced with the half year results is currently in its early stages and still expected to be completed by 30 June.

### **Cost**

The cost reduction targeted in the Profit improvement programs is largely being delivered. Corporate overheads for the quarter were \$2.1m, between 10.0% and 15.0% lower than each of the quarters in the first half.

### **Redcliffe Property**

Existing tenants have formally indicated they are vacating the premises on 31 October 2017. Re-tenanting this property is a key focus for the Company.

**Outlook**

The short term outlook for CGL is largely tied to the health of the mining and gas industries. Currently those industries are recovering from recent lows, however there is little consensus around the sustainability of the recovery. Nonetheless the outlook for improved conditions is higher than it has been for some time.

*For further information, please contact:*

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