Coventry Group Ltd

ABN 37 008 670 102

# ANNUAL GENERAL MEETING

# 1 NOVEMBER 2004

# CHAIRMAN'S ADDRESS

Ladies and Gentlemen

It is a pleasure to report to you on a successful year for the Coventry Group. I will cover a few key points and Chris Glenn will then present a more detailed review of our operations and a number of initiatives that are under way.

**RESULTS**

As you will have noted from the annual report, the Group had a pleasing lift in net profit after tax by 37% to $14.8M. Earnings per share increased from 31.5 cents to 42.5 cents and the dividends paid for the year increased from 30 cents per share to 34 cents per share, representing a payout ratio of 80%.

Return on shareholders' funds increased from 6.7% to 9%. This is still short of our target of 12%, but is a significant improvement on recent years.

While the overall result was excellent there were some soft spots. Coventry Auto Parts is still unprofitable although results are trending in the right direction, Bitumen continues to fight for business in a tough market, and Industrial, although producing a very good bottom line outcome, is being hit by aggressive competition, particularly from smaller and start-up operations that have been targeting our staff.

**DIVIDEND REINVESTMENT PLAN**

The Dividend Reinvestment Plan has been well supported with an average of 1,000 shareholders participating for the interim and final dividends. A total of $4.4M was invested in new shares. The issue price was $5.98 for the interim and $6.53 for the final.

**STRATEGY**

While seeking greater efficiencies in the operation of existing businesses, we have continued the policy of adding "bolt-on" acquisitions in business areas that are compatible with those existing businesses. The benefits are apparent in the achievement of synergies, as well as increased sales volumes. Since the close of the financial year we have acquired three businesses, including an automotive business in the Northern Territory where that division previously had not had direct representation. Together, these acquisitions will contribute $20M in sales in a full year.

Such acquisitions, at the right price, represent a sound expansion path and we will continue to look for opportunities. The Company has a low gearing and high interest cover ratios, giving us the balance sheet capacity to undertake significant growth by this means.

**CORPORATE GOVERNANCE**

We have included in the Annual Report an assessment of our compliance with the recommendations of the ASX Corporate Governance Council and believe that we have suitably observed the various principles of good corporate governance.

Particular attention has been paid to the identification and management of risk for the Group, including an expansion of the charter of the Audit and Risk Committee of the Board. Also we have established a Management Risk Committee, under the chairmanship of the Chief Financial Officer, which reports to the Audit and Risk Committee.

Brian Goddard retired on 29 February as a Director and Deputy Chairman of the Board. Brian was an employee of the Group for 37 years until 1997 when he retired as Joint Managing Director. He served as an executive director and non-executive director for a total of 27 years. He has made a considerable contribution to the growth and success of the Group and I am sure you would wish to join me in thanking Brian and wishing him and Erna good health and happiness in the years ahead.

Joe Boros was appointed to the Board to fill the casual vacancy. As required by the Company's Constitution, Joe is standing for election as a Director at this meeting. He is a former Chief Executive of Bunnings Building Supplies and his business experience already has enabled him to add considerable expertise to the deliberations of the Board. We are delighted that he has agreed to join the Coventry Group.

**CURRENT PERFORMANCE AND OUTLOOK**

The Australian economy continues to enjoy considerable growth and business conditions, generally, are very favourable. We have started the year satisfactorily but competition continues to be aggressive, particularly in the industrial products business. The performance of Coventry Auto Parts is steadily improving and we have undertaken significant restructuring in New South Wales to try and accelerate the process. Overall we expect that results for the Group will show an improvement over last year.

**STAFF**

I take this opportunity to commend our Chief Executive Officer, Chris Glenn and all of our executives and employees on the excellent results they have achieved. The Group has made considerable progress in the past year and for that the Board and all shareholders are most appreciative.

It is now my pleasure to call on Chris Glenn to make a presentation on the Group's performance.

WARWICK KENT, AO
CHAIRMAN

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# CHIEF EXECUTIVE OFFICER'S REPORT

Good afternoon Ladies and Gentlemen

I am pleased to present to you today a significantly improved performance for our Company over the past twelve months.

This afternoon I will provide an overview of Coventry Group's performance, outline our business strategy and major improvement projects and give you an indication of our future prospects.

**2003/2004 RESULTS**
Operating revenue for the year increased 4.3% to $436M.

As reported by the Chairman, profit after tax increased 37% to $14.8M and earnings per share increased from 31.5 cents to 42.5 cents.

The return on shareholders' funds improved from 6.7% to 9% and this is a reflection of a better level of profit across the business with a strong contribution by the Industrial, Gaskets and the West Australian Automotive businesses. The Company's subsidiary, Coventry Auto Parts loss reduced 29% which was below our expectations.

The effective tax rate for the Company reduced from 36% to 31% due to the effect of grouping the Coventry Auto Parts business losses for the first full year.

The operating cashflow was $20.2M against $22.4M for the prior year. The slight drop in the cashflow was due to increases in stock and debtors. The net interest cover was 21 times and the net debt to equity ratio was 7.3%. Since June 30, three acquisitions have been completed and the final dividend has been paid and this has increased the net debt to equity ratio to 17%. The Company continues to have a strong balance sheet which gives the capacity to expand by acquisition.

Since June 30 the Group has completed three acquisitions. On July 1 the Queensland based Thompson's Spare Parts and Rod Smith Parts and Bearings and on July 31 Independent Motor Mart, a Northern Territory based automotive parts distributor were acquired. On 1 September, Engineering & Fastening Supplies in Whangarei New Zealand was also acquired. It is anticipated these acquisitions combined will add $20.2M in sales on an annualised basis.

Commencing with Automotive I will run through the operating divisions.

**AUTOMOTIVE**
Revenue for the Automotive business increased 6% to $242M with earnings before interest and tax and significant items moving from $3.6M to $7.1M. The return on capital increased from 6.8% to 11.4%.

The improved performance was a result of a strong growth in the West Australian business and a 29% reduction in Coventry Auto Parts losses. The South Australian business underperformed due to lower than budgeted revenue and gross margins.

The $4M loss result for Coventry Auto Parts was worse than expected and ongoing restructuring has occurred to improve the performance. This restructuring has focused on revenue, initiatives and cost reduction. There has been an improvement in performance over the last few months with Coventry Auto Parts New South Wales operation.

The Thompson's and Rod Smith acquisition in Queensland builds our presence in this market and positions Coventry Auto Parts Queensland activities to be a profitable business in 2004/05. The Independent Motor Mart acquisition now places the Company as a major player in the Northern Territory market.

During the year, two new branches were established in Western Australia and South Australia and there was a further expansion of the house branded 'Coretech' and "CGL Tools' product ranges.

There are ongoing projects aimed at improving purchasing and off the shelf product availability with the view to increasing sales and reducing costs.

**INDUSTRIAL**

Revenue for Industrial improved 4% to $173M with net profit before interest and tax increasing 16% to $15.9M. The return on capital improved from 21% to 25% from the previous year.

The excellent profit result was due to improved purchasing coupled with particularly strong economies in Western Australia and Queensland which have a high exposure to the strength of the resources sector. We were disappointed with the sales growth given the strong economy and this was due to strong competition from the small to medium players in the fastener business.

The operational highlights include a strong result from our New Zealand business, Hylton Parker Fasteners, continued growth in Infix, the specialist construction fastener business and the successful move to the centralisation of inventory purchasing.

The fastener business was rebranded to 'Coventry Fasteners' rationalising seven trading names previously used. This relaunch of the business firmly establishes its leadership position with a single brand across Australia.

Looking forward, the Industrial business has an opportunity to continue to grow its vertical markets as well as expanding the product range. The division has seen increased levels of competition in the fastener sector, particularly from smaller players in the market.

**GASKETS**

The Gasket manufacturing businesses of AA and NZ Gaskets had an excellent improvement in performance with profit before interest and tax increasing 50% to $1.8M with revenue remaining steady at $12.5M. The return on capital increased from 14% to 23%.

The improved results were attributable to better margins due to lower costs of imported raw materials and the impact of strategic restructuring initiatives that had been implemented in the previous year.

The highlights for the year included the release of the new Permaseal catalogue, major improvements in the factory which included the commissioning of a new assembly press and a renewed sales and marketing push into the gaskets aftermarket.

The forward outlook is for continued steady growth with the business well positioned to improve its market position.

**BITUMEN**
The Bitumen business underperformed again this financial year with revenue down 2% to $13.4M and profit before interest and tax down 7% to $1.3M. The return on capital decreased from 29% to 26%.

The lower than expected profit was due to the Hot Mix asphalt business which failed to recapture lost contracts and was impacted by start-up problems with the new production facility in the first half of the year. The plant is now operating efficiently and achieving the planned operating output.

On a positive note, the segment's emulsion spray and cover operation significantly improved profit compared to the previous year.

A number of initiatives are in place to improve the asphalt business including a new sales and marketing program and the launch of 'Eco Grade' asphalt which is a product based on the use of recycled asphalt. 'Eco Grade' has a strong appeal to local government and other organisations who have a desire and a commitment to minimise industry's and the community's impact on the environment.

A number of key initiatives have commenced which aim to improve the efficiency and performance of the Company.

These include information systems projects, the Morley warehouse facility in Perth, and people development.

**INFORMATION SYSTEMS**
Significant work has been done in reviewing our information systems with the outcome being the development of a five year strategy to renew our systems, with two major projects currently being progressed. The first project involves the establishment of a formal disaster recovery capability for the core IT applications. This project is due for completion in February 2005. The second initiative will see the Group establish a new core operating and warehouse system. This is a major project which will be completed over the next three years.

**MORLEY DISTRIBUTION AND OFFICE COMPLEX**
The Company's West Australian business and head office have operated from the Morley site for over 30 years. A full review of the requirements for the West Australian Automotive, Mining and Industrial Supplies business was undertaken and the outcome was for the business to move to a new warehouse location which was closer to our markets and enables the use of modern warehouse technology.

An expression of interest for the sale of the Morley site and the sourcing and construction of a new site has been released to the market and it is expected a decision will be made in February 2005.

**PEOPLE**
With the continual growth in the Company, a number of initiatives have been undertaken to improve safety and the capability and performance of our staff. These initiatives include:

- launching of the Group's occupational health & safety program 'Safety First' which has had a significant impact on improving the safety culture of the Company.

- an organisation wide survey of our staff identified a number of improvement opportunities. Initiatives which have commenced include a new communication program, which focuses on regular staff contact and updates.

- over the next twelve months there will be an increased expenditure on training and development with a focus on those staff at the customer contact end of the business.

**STRATEGY**
The operational strategy for the business continues to focus on improving the business processes and driving efficiencies within the business and building our organic sales growth capacity.

There will be an ongoing focus for 'bolt on' acquisitions which will complement our existing business units. We are continuing to review other business segments where we see an opportunity to grow by acquisition whilst leveraging the core competencies of our organisation.

**OUTLOOK**
The outlook is for trading conditions to remain satisfactory and in line with the Australian and New Zealand economies. Strong competition particularly in the Industrial and Bitumen business segments is expected to continue and may slow the Group's rate of sales growth.

Improvement of the underperforming Coventry Auto Parts business will continue to be a priority along with further developments of the traditional Automotive and Industrial businesses.

**SUMMARY**
The last twelve months have seen a significant increase in the performance of our Company. Some parts of the business have had an excellent result. There are other areas where progress has been made, however there is still a significant opportunity for further improvement.

Looking forward we will continue to focus on growth and our goal of achieving a 12% return on shareholders' funds. The markets we operate in have a significant opportunity for rationalisation and we plan to be part of this process with an ongoing focus on 'bolt on' acquisitions.

Finally, I would like to acknowledge and thank the staff and management for their commitment and support, as it is our people who deliver the results and the returns to our shareholders. I would also like to thank the Board for their guidance and support over the last twelve months.

I believe Coventry Group is well positioned to capitalise on the opportunities that will become available in our markets over the next few years.

CHRIS GLENN
CHIEF EXECUTIVE OFFICER