



ASX Media Release

7 November 2014

**CHAIRMAN'S ADDRESS
ANNUAL GENERAL MEETING – 7 NOVEMBER 2014**

Today I will concentrate my main comments on 3 related areas which are key to our future success and are matters in which shareholders have rightly expressed keen interest.

Leadership and Renewal

The first is leadership and renewal at the Board and Executive levels.

Your Board should and does regularly review and where appropriate adjust its strategy in light of market reality and opportunities.

Similarly it monitors on a monthly basis how those strategies are being executed. Strategic matters considered regularly include:

- the basic operating model of each business
- divestment and acquisition opportunities
- capital and dividend management
- whether we have the right Board and Management team for the time

In this last area, we regard Board and Management renewal as a necessary and healthy thing to occur over time.

SLIDE 4: LEADERSHIP RENEWAL

In this regard it is worth noting that virtually every one of the CEO's direct reports have been changed over recent years including the Leader of each business unit, the CFO and the CIO and we have taken further steps this financial year to further reduce corporate and overhead costs.

On the matter of renewal of leadership, the same exists at the Board level where there is a deliberate and timely transition occurring. Of the three non executive Directors we had at July this year, one (John Nickson) has retired in September and another, Barry Nazer, our Audit Committee Chairman, has advised he will retire in March following the first half results announcement.

We have advised the market that I will be handing over the CEO role to Peter Caughey as soon as is practical for him to have the available time to take on the extra role. This will happen effective January 1. Peter enjoys the full confidence of the Board.

In the meantime, we appointed two new non executive Directors in September so within a few months we will have a new CEO and only one non-executive director, Ken Perry, continuing in his previous role giving some continuity. Ken is WA based and has been on the Board for five years. Previously he was CEO of two similar sized ASX listed companies.

This new blood is healthy and brings fresh eyes to question all we do.

The Board has asked that after handing over the CEO role I act as non executive Chairman of the Board. I have agreed to do this for a period of transition before handing over to a fresh chairman as I believe it is not good for a previous CEO to hang around too long when the new CEO is appointed.

In addressing the matter of appointing new directors, the Board was absolutely objective and open minded. We used our own business knowledge and contacts as well as getting assistance from a professional head hunter to search for the best candidates.

We spoke with a number of shareholders and met with candidates proposed by shareholders.

Some candidates were ruled out due to conflict of interest and we ultimately appointed those who were most capable by virtue of their skills, experience and drive to contribute to growing shareholder value.

By appointing the two new non executive Directors well before the AGM, we mandated that they must stand for re-election today. This also gave ample opportunity for shareholders who felt they had superior candidates to field those candidates for election today. No other candidates nominated for election.

As you can see, a robust process was followed.

The second area to speak to is what's been achieved, how are we doing and why aren't our trading results better?

What's Been Achieved?

SLIDE 5: SINCE 2007 CYG HAS BEEN IN TRANSITION

Coventry is well progressed along a journey of transition in terms of the mix of businesses it has and its change in mode of operation to deal with the greatly changed market dynamics in which it now has to trade. There have been lots of ups and downs along the way. Whilst a lot remains to be done, much has been achieved :

- grown a substantial fluids business
- grown our market share and profitability in the gaskets industry
- exited auto and bitumen/asphalt businesses and properties at prescient times
- recovered from having \$83m debt to having \$48m of cash at June 30 2014 - paid out approximately \$38 million in fully franked dividends over the last 3.5 years to September 2014 (\$0.99/share)
- exited the furniture business by realising the assets to cash
- gone a long way in reshaping the fastener business but a lot still to do.

SLIDE 6: DIVIDENDS

Despite this and our strong balance sheet, the current trading performance overall of the Company is poor, principally due to the Konnect business currently trading at a loss.

Why are we not performing well today in Konnect?

SLIDE 7: KONNECT

The obvious question we all ask is "why is this so?" and why is the business trading at revenues well below its historic highs despite so much transformation work having been done particularly under Peter Caughey's leadership in the last two years.

In summary the answer is first and foremost major industry structural changes including:

- a stronger Australian dollar meaning lower A\$ revenue for the same number of units sold
- significant reduction in demand from manufacturers in Australia
- softer demand in the commercial and industrial construction fields
- importers from whom we have traditionally bought (and provided the route to market for their products) have increasingly been competing directly with us for our end user customers and taking volume from us
- lower selling prices in an intensely competitive market obscuring cost savings.

These factors have led to some industry rationalisation with various exits and mergers and a loss of profitability across the industry.

The plain fact is all the available data shows that the fastener industry which has traditionally made good profits is right now profitless and trading on unsustainable terms.

In time, it will revert to reasonable profits and in the meantime we are well placed to ride through this period.

Unlike some of our competitors who are mainly not ASX listed companies, we have a very strong balance sheet and the advantage of businesses in other industries, which helps even out the cyclical downturn.

Much of the sale of fasteners is commodity like and many can only compete on price. An advantage that we have is our network of over 50 specialist fastener locations which enable us to add an element of advice and service which a centralized, pure commodity provider cannot offer. This will ultimately help us.

SLIDE 8: REVENUE RELATIVITIES

In response we have been active over the last two years in attacking our cost structure from both a COGS and cost to serve basis and Peter Caughey will explain in more detail later what we have been and are doing. Clearly what we have done so far has disappointed us and is not enough. To rebuild profitability we inevitably need to directly source more products and lift our internal productivity.

Similarly we have been working hard to retain and win customers.

Other Businesses

SLIDE 9: ARTIA

Trading in Artia remains tough but is trending in the right direction.

SLIDE 10: COOPER FLUID SYSTEMS

Cooper Fluid Systems, as with many organisations providing services to the mining sector has been impacted by the downturn in capital spend, as indicated in the Group's accounts for FY13 and FY14. The management in the division has been working diligently to accelerate the business transition between supporting the capital phase of the cycle and the

production phase. This transition is nearly complete, and it is pleasing to note, in the second half of FY14 we have started to see the upturn in earnings that was expected. The expanded offering of services, focus on repeat business such as hose repairs and a small strategic acquisition are continuing to expand the Coopers business this financial year.

SLIDE 11: AAG/NZG

The gasket business continues to trade well whilst MSS faces stiff competition but is approaching profitability.

SLIDE 12: CORPORATE AND MSS

In the corporate services area we are continuing to reduce our costs . In FY14 the 'back office' and corporate functions have continued to be disciplined in their spend pattern. Through the introduction of technology and more efficient work practices it has been possible to remove costs from the business. The reduction in costs has not been at the expense of control and process, as witnessed by the excellent aging of our debtors' book and low instances of bad debt.

The third area is the forward looking subjects of what further can be done to improve our performance, what is the near term financial outlook and what is the Company's strategy.

Peter Caughey will shortly address you and give more insight into the performance improvement of Konnect and Artia.

In Cooper Fluids, we are continually increasing our geographical footprint, adding products and winning share with our customers. These moves build on the benefits of a skilled workforce and being the distributor of leading market brands.

The Gasket business is in a mature market and is already an efficient operator as the market leader. We are currently searching for adjacent products which we can add to its portfolio in a way that most of the incremental gross margin reaches the profit before tax line.

So far as the near term financial outlook is concerned, for all the reasons spoken about today, it is anticipated that the underlying operations will have a small loss before tax for the first half of F15.

This is before taking account of any significant or non-recurrent items.

Based on cost initiatives being taken we anticipate a better result in the second half.

The overall strategy of the Company is to operationally improve the existing businesses we have and regrow them, primarily organically via market share and range extensions. As our recent actions and announcements have shown, we are moving substantial cash and franking credits out of the Company and into the hands of shareholders. We have been reinvesting in our businesses which are market leaders in their respective industries in preference to making new industry acquisitions where a lot of looking has shown thus far that desirable businesses are not available at prices commensurate with the risk profiles of the businesses.

We have avoided the mistake many companies have made, including Coventry in previous eras, of making value destroying acquisitions. We don't intend to lose our discipline in this matter.

I will now hand over to Peter Caughey to provide you with an outline of current initiatives being undertaken in relation to the fastener and hardware businesses which he leads.

Whilst Peter is based in Melbourne, he regularly travels to all states of Australia and New Zealand as part of his brief to oversee and drive the performance of the Konnect and Artia businesses.

Mr Caughey's presentation slides numbered 13 to 21.

(END OF CHAIRMAN'S ADDRESS)

For further information, please contact:

Roger B Flynn
Executive Chairman
Coventry Group Ltd

(03) 9205 8223



LEADERSHIP RENEWAL

JULY 2014

R. Flynn Executive Chairman
J. Nickson Non Executive Director
B. Nazer Non Executive Director
K. Perry Non Executive Director

Q1 2015

R. Flynn Non Executive Chairman
N. Willis Non Executive Director
N. Cathie Non Executive Director
K. Perry Non Executive Director
P. Caughey CEO

LATER

New Chairman



SINCE 2007 CYG HAS BEEN IN TRANSITION IN ITS

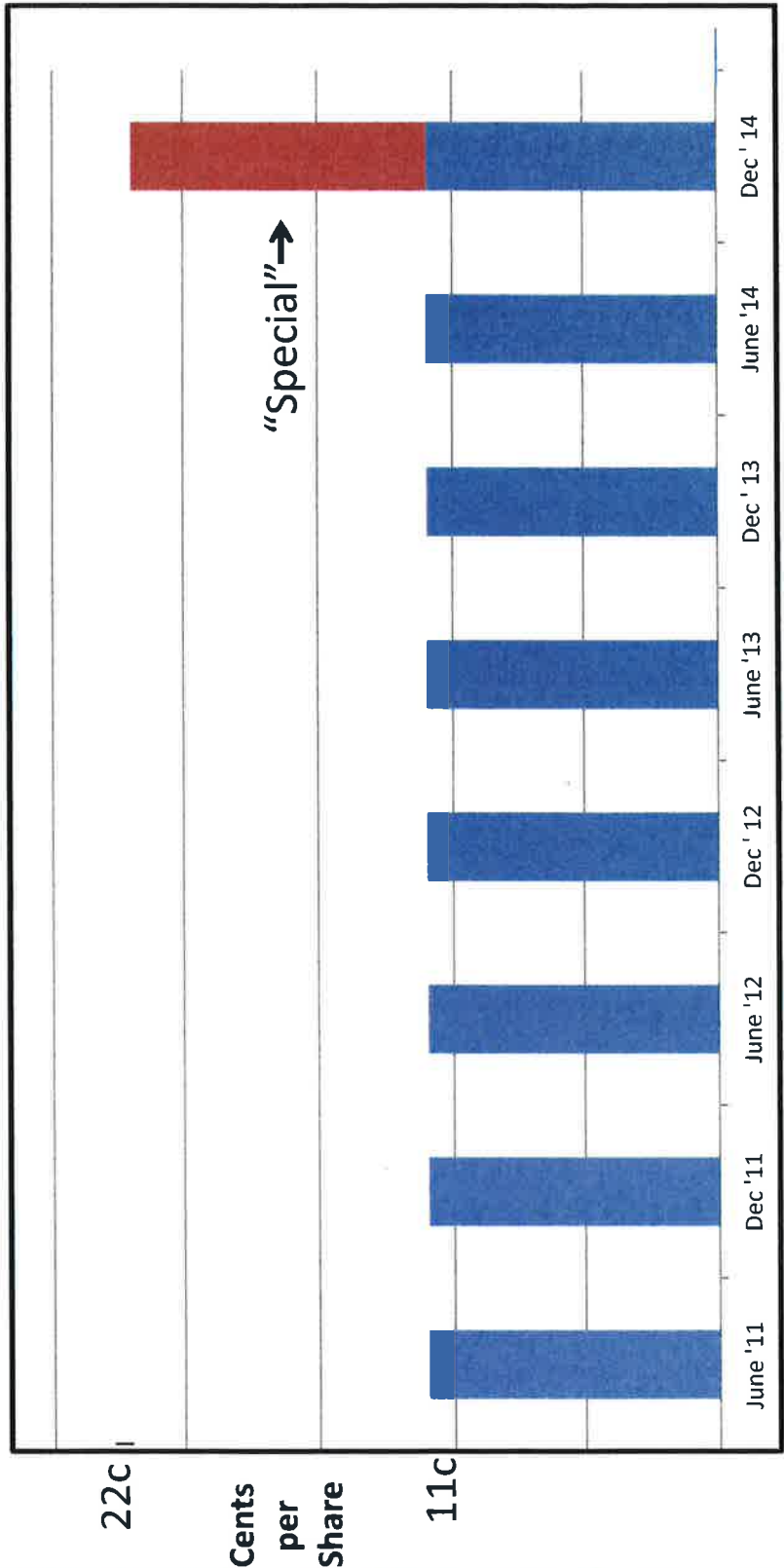
- PORTFOLIO
- CAPITAL STRUCTURE &
- OPERATING MODEL

PORTFOLIO	CAPITAL STRUCTURE	OPERATING MODEL
GROWN - CFS - AAG - MSS EXITED - BITUMEN & ASPHALT - AUTO - W.A. REAL ESTATE - FURNITURE	\$83M DEBT ↓ \$48M CASH (June'14)	MULTISTATE STRUCTURES IN BENIGN MARKETS AND MAINLY DOMESTIC SOURCING ↓ UNITARY MODEL PER BUSINESS STREAM WITH EMPHASIS ON BUY/DISTRIBUTE/SELL FUNCTIONS AND LEAN OVERHEADS ↓ STILL A WAY TO GO



DIVIDENDS

\$38M F.FRANKED PAID SINCE MARCH 2011



HALF YEAR ENDING



CURRENTLY TRADING AT A LOSS IN ULTRA COMPETITIVE MARKETS THAT HAVE SLASHED PROFITS FROM INDUSTRY

ADVERSE FACTORS

STRONG A\$
REDUCED COMM'L CONSTR'N
REDUCED MF'G
THIN INFRASTRUCTURE
IMPORTERS COMPETING
MINING DOWN

LOWER
REVENUE
+
G.P. %

ACTIONS TAKEN AND ONGOING

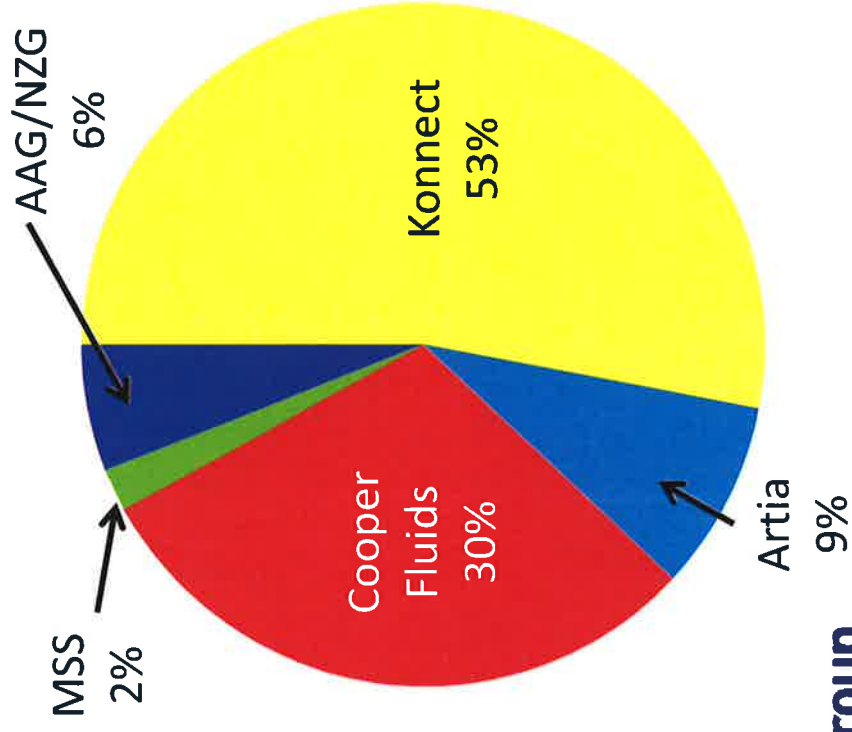
- MORE DIRECT SOURCING TO LOWER COST OF GOODS PURCHASED
- PEOPLE PRODUCTIVITY
- SALES TRAINING
- NEW PRODUCTS
- REDUCED CORP. AND OTHER OVERHEADS



CURRENT TRADING PERFORMANCES

OUR CURRENT TRADING PERFORMANCES VARY BY BUSINESS BUT IN TOTAL IS POOR DUE TO WEIGHTING OF COMBINED FASTENER & ARTIA BUSINESSES

Revenue Relativities





STARTING TO SEE BENEFITS OF A STREAMLINED OFFERING AND BETTER TRAINED STAFF

- OUT OF FURNITURE
- 4 → 2 PRICE POINT OFFERING (BETTER AND BEST)
- MERGED DISTRIBUTION CENTRES WITH KONNECT
- BRAND RECOGNITION STILL A CHALLENGE
- WINNING OVER MAJOR RESIDENTIAL BUILDERS



PROFITABILITY TREND IS RECOVERING HAVING GAINED SHARE

- ADJUSTED TO GREATER DEPENDENCE ON MAINTENANCE RATHER THAN CAPITAL SPEND.
- ADDED BRANCH QLD.
- REDUCED OVERHEADS & TOTAL PEOPLE COSTS.
- CONSISTENTLY PROFITABLE DESPITE SELLING PRICE REDUCTION IN SOME QUARTERS WITH HIGHLY COMPETITIVE MARKETS.
- PROFIT STILL WELL BELOW PEAK.



TRADING WELL AND CONSISTENTLY PROFITABLE

- CONSOLIDATED MARKET SHARE AS KEY COMPETITOR CLOSED.
- AHEAD OF THE GAME IN TRANSITION TO SERVICING AN IMPORTED “CAR PARK”
- ON TRACK TO EQUAL F14.



CORPORATE & MSS

**CONTINUE JOURNEY TO LEANER & LOWER COST
STRUCTURE TO COMPETE WITH OFTEN PRIVATE LOW
OVERHEAD COMPETITORS.**

- **REDUCED STAFFING**
- **MERGED & MORE AUTOMATED BACK-OFFICE
FUNCTIONS**
- **EXCELLENT DEBTOR AND CREDITOR
MANAGEMENT**

Konnect/Artia

AGM Presentation



Coventry Group Ltd

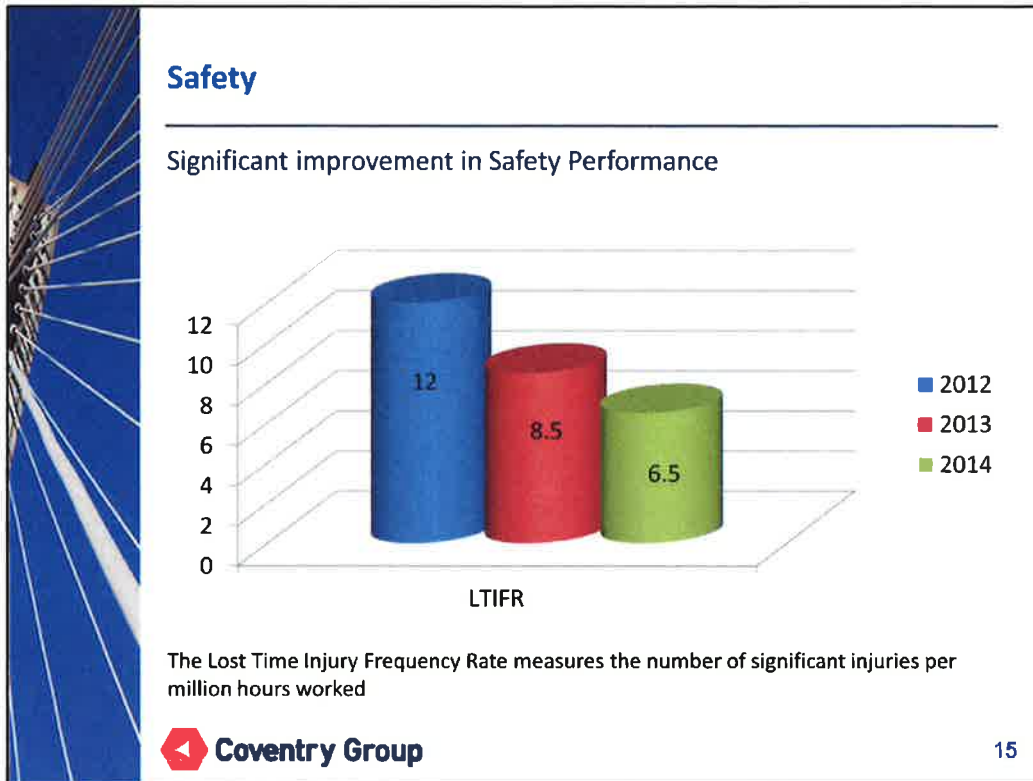
ABN 37 008 670 102

13



Agenda

- Safety
- Unique Selling Proposition
- F14 Konnect result explained
- Cultural shifts
- 1QF15 achievements
- Future sales performance
- Future cost out
- Summary



Safety is not only the “right thing to do” it’s also good business. Staff in safer businesses have better morale and lower absenteeism, higher engagement and lower workers’ compensation claims. Over the course of the past 18 months we have been able to improve our safety systems, engage our staff, change the focus of our management team, measure and reward our way to an almost halving of serious safety incidents. There are still too many, with zero being the target. In the next 12 months the safety plan will involve more training, revised policies and procedures and investment in lifting devices and other equipment as we strive to make the business injury free.



Unique Selling Proposition

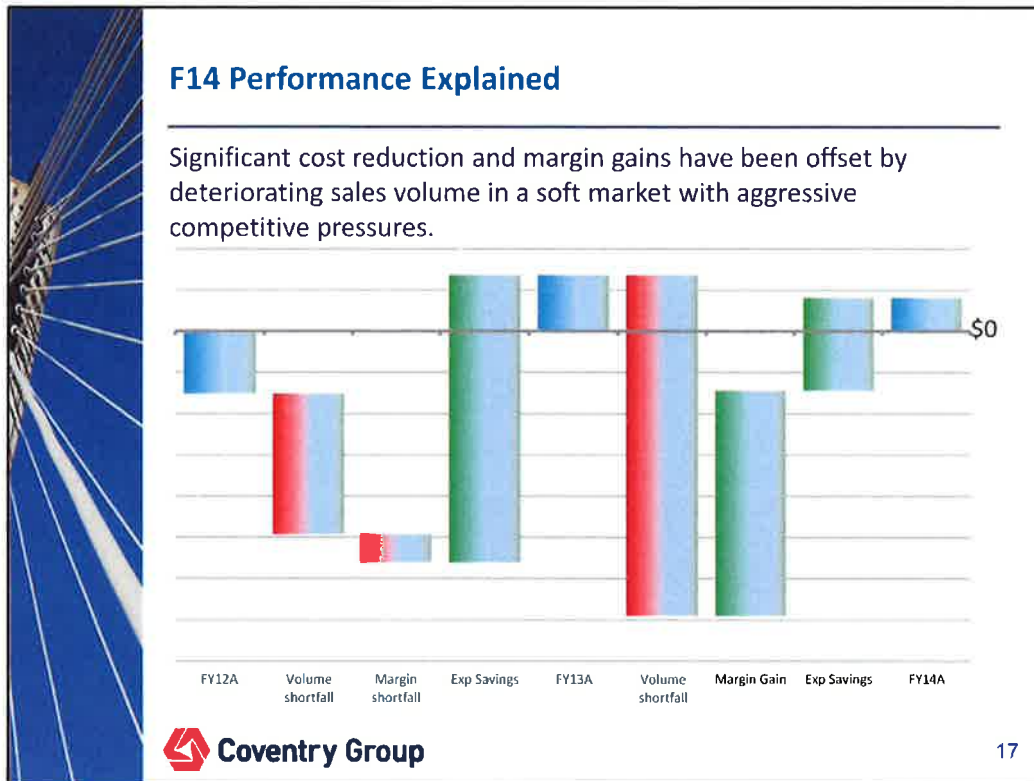
Unlike our specialty fastener competitors, Konnect has a broad branch network which drives buying power and for customers operating in multiple locations it is often a key reason for selecting Konnect. Artia will shortly take advantage of this network with a number of regional pilot sites underway or planned.

- The branch network is key Konnect differentiator
 - Multi-local presence
 - Increase in scale necessary to defray overhead and drive purchasing power
- Leveraging Konnect regional branch network is an unique opportunity for Artia along with exclusive products from Europe forms Artia's USP



16

Konnect is unique among specialty fastener providers as it is the only one with an extensive branch network across Australia and New Zealand. Further there are more than 25 new locations that have been identified as having the potential market to support a branch. Alternate models to the branch network have been considered and financially modelled but to date each alternative has been assessed as leaving shareholders worse off than today. Therefore, we have adopted a policy of sensible growth in order to improve buying power and reduce unit overhead costs.



Volume Shortfalls

Key markets have softened as the mining investment cycle has cooled, infrastructure expenditure is thin and manufacturing is weak. In addition we have weaker exposure to some stronger parts of the economy, such as residential construction and high rise construction.

In addition to softer markets competition has increased. In the past two years several buying groups have emerged, feeding cheaper product to independent competitors. Importers, whom we buy from, have increasingly gone direct to our customers and existing players have moved into segments of the market where they have traditionally not competed. A good example is the roofing screw market, which has gone from 2 large players and a few minors to 5 significant players and 2 more about to enter the market. This increased competition has driven the industry to the point of being profitless as a whole.

The unsustainable nature of the current industry settings means that the cycle will turn and profitability will be restored, delivering an acceptable return to shareholders.

In response to softer markets and more competition we are reducing costs to allow us to compete at lower prices in key markets, increasing our exposure to other markets through sales rep recruitment and new branches and entering new fastener

markets where we have previously not operated.

In order to increase sales we have promoted and employed sales representatives to increase the field sales force. Many appointments have been from outside the industry creating a lag between starting with us and developing the product knowledge to flourish. Whilst internal promotions have the product knowledge they are usually novices in selling on the road which improves with training and experience. Additional branches have also come at a cost, being net loss making in their first year.

So the reality that we have had to deal with is that the markets softened in both years whilst competition has increased.

Cost

In response, over \$4m of cost has been removed from the business since January 2013.

We think of cost as the cost to procure the goods we sell and separately, the cost to operate our business which we refer to as the cost to serve. Cost cutting in FY13 came primarily through reducing the cost to serve. The majority of the cost cutting has come from closing DCs, reducing head count and right-sizing branches. The number of distribution centres has declined as the back room operations of Artia and Konnect have been merged. It is important to note that the closure of distribution centres has not come at the cost of service levels with improved DIFOT. Also leading to significant head count reduction has been the leveraging of the DCs to deliver direct to the customer. Whilst levels of direct despatch to the customer varies according to a branch's proximity to a DC this has led to a reduction in the branch workforce as work is now being done efficiently in DC and often only touched once.

In FY14 more expenses were removed from the cost to serve, but not as many as in FY13 and the import program began to lower the cost to procure goods.

Net cost reductions in F14 were not as great as F13 as we reinvested several hundred thousand dollars in the business. 5 new branches, an expanded sales force, training and other new costs offset some cost savings.

Significant margin gains were achieved in FY14 as a result of a new, simpler approach to pricing but came at the expense of volume.



Cultural Shifts

Momentum in the new direction has been slow to build as cultural shifts have taken time to establish. Since January 2013 a significant amount of change has occurred. Initial turbulence is now giving way to a new culture.

From		To
- 49 individual branches		- Network of 54 branches
- No set operating method		- One universal method
- Apprentice culture		- Formal Training
- All sales at "normal" margins		- Traders/ Entrepreneurs
- All accidents bad luck		- All incidents preventable
- External recruitment		- Promote from within
- All customers are equal		- Customers segmented
- Unmeasured		- We measure everything that's important to us

 **Coventry Group**

18

We could not have achieved the changes we have without a change in culture. At its heart the changes are about professionalism and simplicity. About responsibility & accountability. No change program is without its moments and ours, part way through, has been no different. In January 2013 we introduced an incentive program to reward the staff who demonstrated the behaviours that we wanted. That program was successful in changing attitudes. Having judged that we were largely getting the behaviours we wanted the incentive program changed on 1 October 2014. The new program rewards our staff for results in either sales, for all team members and sales reps, or for profit, for all branch and regional managers. Measure and targets underpinned both programs.



Cost to Serve: Foundation Work

Cost base reduction has been enabled by a complete overhaul of the branch network, distribution centres and key systems. This has allowed some cost to be removed with significantly more opportunities now available.

- Barcoding introduced
- Purchasing centralised and automated
- 38 branches reconfigured or relocated
- Freight Management System commenced
- Significant improvement in safety
- Learning Management System
- Fractured communication systems now a robust national system
- Small dedicated telesales team established
- Significant renewal of Senior Leadership Team

 **Coventry Group**

19

Cost savings in the future will be able to accelerate due to the foundation work completed in the past 18 months.

When I speak of foundation work I refer to the work that goes into systems that allow cost reduction or service improvements.

For example, barcoding by itself does not improve profits, but it has the ability to lead to improved profits. Barcoding improves our accuracy, leading to better service. It improves our stocktaking whilst consuming less labour. It means that staff can be taught the process swiftly which crucially leads to the possibility of servicing peak loads with casuals instead of permanents. It creates a more professional environment leading to lower staff turnover. And so the impacts of barcodes in our business goes far beyond the ability to scan a product.

Centralised purchasing leads to simple business rules, consistency and lower costs.

38 reconfigured or relocated branches are cheaper to run, cheaper to lease and require fewer staff.

Freight management system, once completed, will allow all staff to see the status of a product which will improve customer service. FMS will select the lowest provider of a specific transport service, reducing costs. It will simplify the process of being a Team Member. As we will no longer hand write consignment notes it will improve

the professionalism of our business and reduce errors whilst speeding up the process.

I spoke about safety earlier and would like to underline the importance of this endeavour to our staff and our customers.

Our online Learning Management System helps us to deploy training content to over 400 staff in Konnect and Artia and has now been extended to MSS, Coopers and Corporate. The content can be expensive and is being progressively written over the course of 2014 and the first half of 2015. When complete it will represent the first comprehensive and universal training system for working at Konnect and Artia and allow us to improve the knowledge of all of our staff but perhaps more so amongst new staff.

Communication systems have recently been updated to allow the efficient transfer of calls between branches whilst reducing our costs. These are basic items but each takes time. With a unified system one branch can now help out another in times of high demand, reducing the need to carry extra staff "just in case" whilst improving customer service. Again you see the basic building blocks coming together. Without FMS providing transport information one branch cant answer another branches' customer's inquiry about a delivery.

Telesales is about reaching small customers in an effective way. The team is very small at the moment, but showing promising results. The communications system will allow effective measurement and monitoring of this promising team. We will be scaling this up substantially in FY15.

Finally, a significant renewal of the Senior Leadership Team has been undertaken with the injection of new blood in the Australian East Coast businesses.

In summary, a great deal of work has gone into creating systems and processes that our staff can be trained to in order to create a reliable, low cost and professional work environment for our staff and our customers. The benefits will not be apparent for some time but they are all positive steps for our company that is striving to be better today than it was yesterday and better again tomorrow.



Since the end of FY14

Markets have continued to deteriorate in FY15 and competitors have aggressively taken share and compressed margins.
\$2.5m cost taken out.

- Margins down as we strive to retain and grow share
- Import orders up
- Artia profit in October
- NZ market continues to perform well
- 2 distribution centres to 1 in Auckland effective August 14
- Staff reduction program October 14
- Telecommunications deal signed which will save \$0.5m (\$0.75m in total across Coventry) p.a. in second half and beyond

 **Coventry Group**

20

Having increased margins at the cost of volume and share in FY14 and waited patiently for competitors to become more rational we had no choice but to become more competitive in order to restore volume. Whilst the volume and margin reduction are immediate and will be felt to varying degrees for the full year, the cost reductions, totalling \$2.5m p.a., will phase in throughout the year resulting in a worse EBITA performance in FY15. Each of the cost reductions is the culmination of months and in some cases more than 12 month's effort.

It is also pleasing to note the profit of Artia in October. It encourages me that the Artia strategy of closing furniture, focusing on hardware and removing cost is on the right track.



Future

Increased sales performance and \$3m cost out is planned

Sales

- New Markets to deliver \$10m sales growth
- Online sales focus – dedicated online team to be established
- Expand telesales
- Training

Cost

- Further distribution centre savings through automation and rationalisation
- Leases to expire on \$400k per annum of current vacant buildings
- Efficiency gains in basic functions
- Import driven reduction in COGS in FY15 (after currency impact)
- Relocation and reconfiguration of remaining 16 branches

 **Coventry Group**

21

Cost cutting alone will not get us to a reasonable return for our shareholders. Sales must be expanded. We need to give our sales teams better skills through training. Our prices need to be sharper, but not at the expense of margins. We need to leverage the newly created simplicities of our business to outsource basic functions including overseas. We need to enter new markets. We have been laggards in the online space which we must correct. And we must expand our fledgling efforts in telesales to efficiently and effectively reach a vast tail of small customers who we mainly under service but at times we over service.

In addition to the cost savings already locked in, a further \$3.0m. of savings has been identified and expected to have been secured by 30 June, 2015 bringing full year savings identified and executed in FY2015 to over \$5m. When added to \$4m. already saved, total full year cost out will approach \$9.0m. by the end of FY15.

In summing up, the Konnect/Artia management team has achieved a great deal of change in past 18 months but we recognise so much more is to be done. We have improved safety and service levels whilst removing cost. We are taking steps to grow the business again. We have improved the business basics. Most importantly we have a plan to continue to reduce costs and increase sales in order to get the businesses back to a sustainable profit as rapidly as possible.

Thank you for your time.