

17 April 2019

## Stealth Global continues strategic initiatives with acquisition of Industrial Supply Group

### Highlights

- Stealth to acquire Industrial Supply Group (ISG), a highly complementary distribution business, for around \$1m cash. The acquisition is to be funded from Stealth's existing cash reserves.
- ISG has 27 independent members with 35 trade outlet locations across Australia, 400+ Suppliers, Online Product catalogues, and a combined trading volume of approximately \$180m+ across all members.
- ISG provides the Stealth group an immediate Australia-wide footprint to expand its business, deliver greater overall group-wide buying power, upsurges the groups business offering to customers, and improves competitiveness against multi-nationals and larger operators.
- ISG is targeting FY2020 revenue of \$2.0million and EBIT of \$0.3million under its existing fee structure.
- The likelihood of new revenue streams is significant by applying greater market and brand portfolio expansion and diversification in Australia and Overseas.
- FY2019 prospectus forecasts restated to reflect costs related to new investments in ISG and BSA Brands JV with Bisley Workwear in the United Kingdom, with full benefits not received until FY2020 and beyond. Proforma FY2019 revenue expected to be in the range of \$73m to \$76m (previously \$76.7m), and proforma FY2019 EBIT \$1.8m to \$2.0m (previously \$3.4m).



**Stealth Global Holdings Ltd (ASX: SGI)** ('the Company' or 'Stealth'), an international supplier and distributor of safety, industrial, healthcare, and workplace consumable products' to business customers is pleased to announce another significant investment milestone in the 2019 period with the acquisition of Industrial Supply Group (ISG).

ISG is a coalition of major independent industrial supply companies servicing customers Australia wide with a capacity to service national accounts. Heatleys Safety & Industrial, a subsidiary of Stealth Global Holdings, has been a member of ISG for more than 10 years. ISG members cover all states of Australia and offer a comprehensive range of industrial supplies, equipment, safety gear and associated workplace consumable products to business customers. The common link between members is that they are all privately owned, service orientated, hands on businesses operating in non-conflicting territories.

The capital outlay of the acquisition is expected to be around \$1.0m in cash, payable out of Stealth's existing cash reserves over a 2 year period. It is therefore expected to be EPS positive in its first full year of contribution, with ISG itself targeting revenue of around \$3m and EBIT of \$0.3m in FY2020. ISG is expected to generate revenue of around \$1.3m and underlying profit around \$0.2m in FY2019. Stealth will only recognise this on a pro-rata basis from the transaction completion date, expected to be 1 May 2019.

Costs related to the acquisition and integration of ISG will be fully reflected in Stealth's FY2019 result. Combined with the establishment costs, the transfer of Stealth's existing African customers and delayed commencement

of UK domestic sales programs into the BSA Brands joint venture announced on 21 March 2019, Stealth has restated its 2019 prospectus forecasts. Proforma FY2019 revenue is expected to be in the range of \$73m to \$76m (previously \$76.7m), and proforma FY2019 EBIT \$1.8m to \$2.0m (previously \$3.4m) before one off Initial Public Offering (IPO) transaction costs.

Excluding the impact of the BSA Brands and ISG strategic initiatives, Stealth's underlying trading performance against actual trading results has been maintained. Stealth has factored the cost and revenue impacts into the purchase price of and investment contributions in the new growth initiatives, and expects to generate an appropriate return on its investment through the replacement of the reduced revenue and profit plus additional growth in FY2020 and beyond.

**The acquisition of ISG is Stealth's third major strategic initiative since its listing on the ASX in October 2018.** It follows the acquisition of Heatleys Safety & Industrial and the establishment of the BSA Brands joint venture in the United Kingdom with Bisley Workwear in March 2019, and is consistent with Stealth's business model and growth strategy to (1) increase sales and earnings, (2) expand operating platform, (3) increase brands partnerships and exclusive distribution rights, (4) grow our digital sales and (5) acquire complimentary businesses.

### The strategic rationale for the ISG acquisition includes:

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- (1) **Delivering the Heatleys business an Australia-wide distribution network to act on national sales opportunities** using the ISG members network to fulfil service delivery arrangements.
- (2) **Generating new revenue and earnings with significant longer term revenue and earnings upside.** This is underpinned by offering more value based business services to existing members, introducing more domestic and International members and taking responsibility of the commercial invoicing of transactions from suppliers to the members.
- (3) **Increasing the capability of the Stealth group to compete with multinationals and larger competitors from the increased buying power and expanded network reach of a much larger buying group.**
  - o Utilising the combined trading volume of members, creates a strength to leverage 'best buy price and commercial trading conditions' with suppliers which increases overall competitive 'Customer proposition'.
  - o Entering into formal strategic partnerships with 'other' international buying groups to leverage service network reach, improved buying conditions and expand brand-product range, exclusive distribution rights and product importing programs. **This is a compelling and unique competitive point of difference.**
  - o **The emerging benefit of this expanded network reach** to service domestic and international customers, is extra revenue and profit upside in cross-border sales programs via our BSA Brands joint venture with Bisley Workwear and other new proposed complimentary brands.

**Stealth Managing Director Mike Arnold said:** "The acquisition of ISG is another significant milestone for Stealth, following our recent UK joint venture with Bisley Workwear. The acquisition is consistent with Stealth's growth strategy and business model, and is expected to deliver significant strategic benefits to our Australian business. Strategically we have done everything we said we would do since listing on the ASX and more, and the achievements are significant in their own right for a business of our size.

"The investments made by Stealth in recent months have been very specific and strategic in their nature, creating a business well on the path to achieve its longer term targeted revenue of \$200m by 2024. The board is very comfortable with the investment decisions, taking the associated development and investment costs in the 2019 period for a positive return in the future years. Building a large and stronger business to create longer term shareholder value outweighs any short term effect."

“Stealth has an increasingly large and diversified model and customer base of circa 3,000 that underpins the foundations for growth in Group revenue and earnings in the future. In November 2018, the Company outlined at its AGM an updated strategy and business model that when built provides considerable long term value for our shareholders. We have since demonstrated to our investors achievement of these strategic initiatives as seen through recent investment announcements.”

“We have a very exciting future ahead with many organic expansion opportunities across all our portfolio. I am pleased with our achievements since listing and our ongoing progression into a noteworthy player across industries and markets’ in which we operate. Stealth is rising into a larger operator, able to compete against the multi-nationals, nationals and large conglomerates”.

## ISG Transaction Summary

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Stealth will acquire 100% of the issued and paid-up share capital in ISG. The purchase will be completed on 1 May 2019 in an all cash offer, in accordance with the following payment terms;

- (1) Stealth will make a Cash payment of \$500,000 to the Sellers on Completion; Less any adjustments under the conditions referred to in final due diligence.
- (2) Stealth will also make an additional cash payment of \$250,000 to the Sellers on the completion of the first anniversary date from completion, being 1st May 2020; and a further cash payment of \$250,000 to the Sellers on completion of the second anniversary date from completion, being 1st May 2021.

The agreed valuation of ISG is based on the financial information made available to Stealth. Net assets on completion will be approximately \$0.3m mainly in cash and debtors. ISG’s financial forecast for FY2020 under its existing fee structure business model is revenue of \$2.0million and EBIT of \$0.3million. In FY2019, revenue will be approximately \$1.3m and underlying profit \$0.2m though Stealth will only recognise some of this on a pro-rata basis.

The Sellers are Directors of ISG. They will remain with ISG in a non-executive directors role for the next two years. They are also owners of two of the founding and largest members within the ISG group.

The existing trading volume ‘invoicing’ process is predominantly held between the individual member and the suppliers. The future business model will evolve in ISG undertaking more of the commercial invoicing of transactions from suppliers to members. This will result in a significant uplift in revenue and earnings for ISG. Integrating ecommerce systems with members and suppliers will be the initial focus which benefits members with a single invoice approach. This will streamline the efficiency in administration processes and provide a single link to all suppliers on a global operating level.

## Outlook

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**Stealth’s outlook for 2H-2019, FY2020 and beyond remains positive** having accomplished important strategic programs and development milestones. This reflects Stealth’s commitment to strengthening its foundations and upgrading capabilities to support growth opportunities, reinforced by completing the two very significant new investment events in FY2019.

Stealth expects Proforma FY2019 revenue to be in the range of \$73m to \$76m, and proforma FY2019 EBIT before one off IPO transaction costs in the range of \$1.8m to \$2.0m, reflecting the upfront costs and investment in its recent strategic initiatives in BSA Brands and ISG. The longer term outlook for 2020 is for the annual revenue growth rate to continue at double digit levels with an uplift in EBIT reflecting a full 12 month contribution of trading from all business areas and supported by investment in marketing and market entry, a positive macro-economic environment and a strong pipeline of customer prospects.

ENDS



Founded in 1992, ISG is a coalition of major independent industrial supply companies servicing customers Australia wide with a capacity to service national accounts. With its head office in Victoria, Australia, ISG partners with both suppliers and members at all levels providing a strong integrated working model to help members compete with the majors and nationals.

The common link between these companies is that they are all privately owned, service orientated, hands on businesses operating in non-conflicting territories. Finding it increasingly difficult to maintain their competitiveness and profile in today's highly competitive marketplace, a task made more difficult by the dominance of much larger national distributors and the tendency for suppliers to channel their resources through such companies.

**ISG supplies a wide range of quality consumable products to all facets of Australian industry**, supported by major industrial manufacturers of Industrial and Safety consumables including Power and Hand tools, Cutting tools, Abrasives, Hardware, Building & Construction and Maintenance, Repair & Operations (MRO) supplies, Personal Protective Equipment, Safety gear, hygiene and janitorial products.

**ISG members cover all states of Australia** and offer a comprehensive range of industrial supplies, equipment, safety gear and associated workplace consumable products. Expansion of Stealth's overall business and distribution model will be driven by utilising members operational platform to support service delivery arrangements.

**Member locations throughout Australia** Provides growth and expansion for ISG members and the Stealth group from an immediate Australia-wide footprint to expand its business with its customers by utilising members operational platform to fulfil service delivery arrangements.



## How ISG works today and its planned evolution

ISG partners with its members and suppliers to offer a better future for independent distributors of industrial, safety and workplace supplies. ISG do this by working in partnership with market-leading manufacturers and specialist suppliers to ensure members have high-quality products at highly competitive prices – and all the services members need to get them in front of the right customers.

- **A competitive advantage.**  
Instant access to more than 400 suppliers – leading manufacturers with great brands and huge ranges to choose from. Sourcing high-quality products for members customers is quick and easy, even when they're looking for highly specialised tools and equipment. Backed by the groups collective buying power, members can always offer very competitive prices. And members have access to exclusive product offers, giving members yet another way to keep members customers happy – and to attract new ones.
- **More sales – creating time to sell more**  
ISG offer full back-office support that simplifies and streamlines members admin, leaving members free to focus on selling to its customers. Members can buy from as many suppliers as they like, and future plans entail that members can receive just one invoice to deal with. So members will be able to make a single payment to ISG. Members will be able to track and view members account online, trade stock with other members and access many more time-saving tools within the dedicated members' area of our site.
- **Strategic support.**  
ISG provides its members with a range of strategic, business and administrative services. Members gain exclusive insights through our business intelligence, market analysis and product information. ISG also help members use technology and develop digital options for choosing and buying products that many customers now expect. ISG supports members by leveraging both our member & supplier network to develop continuous improvements in pricing, trading solutions, credit facilities, reward programs and much more.

- **An extended team.**

The beauty of members joining the ISG group is members are never alone. Members might be a small business, but ISG provide a range of services members can use as an extension to their operations. This includes support with ongoing sales development, creating opportunities to become a key account, servicing large scale end users, provision of Vendor Managed Inventory solutions, contract negotiations, and providing access to marketing services and product specialists.

ISG also put members in touch with trusted providers of business services, such as printing, recycling, phone and internet contracts, insurance, legal, employment and can offer continuous business support in the area of training and development.

- **ISG suppliers.**

ISG maintains excellent relations with some 400+ suppliers of premium workplace products. These brands are available in all states of Australian through ISG member branches and feature prominently in the ISG catalogues and sales promotions. ISG members gain access to these leading suppliers 'brands' and vast ranges so members customers get the products they need from a one-stop-shop. ISG's combined buying power allows members to offer its Customers the best possible prices

- **ISG annual conference** - this event is a highly regarded trade summit between ISG members, suppliers and the industry. The Show is an ideal platform where suppliers meet the decision makers within ISG's membership. It has become an event that is eagerly awaited by suppliers and members alike. ISG suppliers are always represented at the annual event. It's not just a Trade Show; it is a place where orders are taken, business relationships prosper, trading arrangements are cemented.

- **Investment and Technology:**

Technology influences the ability to remain competitive, and ISG continually invest in IT solutions, to ensure both the group and its members stay ahead of the game. With its own systems supporting its back office and ongoing investment in Big Data & Ecommerce solutions, ISG are able to offer omni-channel solutions as well as insight into product level data, analyse buying patterns and make future demand predictions to help with forecasting.



## About Stealth Global Holdings

Founded in 2014, Stealth Global (ASX:SGI) is a successful international supply and distribution group providing a wide-range of **safety, industrial, workplace and healthcare consumable products** and **supply chain solutions** to business customers. Headquartered in Perth, Western Australia, the group operates in Australia, Africa, UK, Europe and Asia.

Stealth customers operate in and across diversified industries, though principally in the resources, construction, engineering, manufacturing, oil & gas, infrastructure, transportation, industrial services, general trade & industry sectors. Stealth is organised by geographical markets servicing customers through multiple sales and distribution channels. These include; sales representatives, branch offices, internal sales account managers, customer service centres, service partners, distributors, catalogues and online.

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