

25 March 2020

CEO Letter to Stakeholders response to COVID-19 and supply chain update

Stealth Global Holdings Ltd (ASX: SGI) (the Company or Stealth) is pleased to provide this update from the Group Managing Director & CEO to all stakeholders on the impact of the COVID-19 virus on its businesses, along with the measures it has actively taken to manage risks to employees, suppliers and customers.

Dear Stakeholders,

The COVID-19 pandemic has had an unprecedented effect on our communities, our economy, individuals and the way we interact. With the situation evolving rapidly on a daily basis, understandably there is a high level of uncertainty at present. We are committed to supporting our employees, suppliers and customers with great effort placed on ensuring we preserve and protect our existing businesses, organisational health and achieve continuity in the supply chain in delivering our essential products and services to customers. In fact, the Company has led early engagement with its manufacturers and suppliers to shore up supply lines that guarantee ongoing supply of its essential products and services to customers.

Our **business model** is underpinned by a comprehensive assortment of essential everyday safety, industrial and workplace consumable products where some 80,000 line items (~\$8.0m value) is currently held in stock at our distribution centres and branch trade outlets.

The diversity and essential nature of many products and services provided by our subsidiary companies: *Heatleys Safety & Industrial, Industrial Supply Group, Australian Workplace Supplies, and BSA Brands (UK)* (a JV company with Bisley Workwear) remain important and critical to customers, particularly in these times.

Strong sales performance has been experienced in the Heatleys Australian business over recent weeks driven by high demand for our critical everyday products, including essential Personal Protective Equipment (PPE), hand sanitisers, gloves, masks, cleaning, hygiene and various workplace consumables.

We have robust supply chain and replenishment arrangements in place with our top 200 manufacturers and suppliers. With many industries currently experiencing supply chain disruptions manufacturers and suppliers are prioritising their tier one distributor base, which I am happy to say we fall into this category.

Our customers are benefiting from the comprehensive assortment of products on offer supported by multiple options in how they would like to buy products from us and have them supplied. In essence, our **one-stop-shop** arrangement reduces the volume of traffic and congestion at various delivery locations.

We have recently communicated to our Customers a number of the strategic initiatives and actions we have implemented to protect our supply chain and the fulfilment of current and future product orders. These measures include:

STEALTH GLOBAL
HOLDINGS LTD
ABN: 25 615 518 020

ASX CODE: SGI

AN AUSTRALIAN
MULTINATIONAL
DISTRIBUTION GROUP

BOARD

Chris Wharton
Chairman

Michael Arnold
Group Managing Director

John Groppoli
Non-Executive Director

Karen Logan
Company Secretary

ISSUED CAPITAL

94.9 million Ordinary Shares

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OPERATING BRANDS

- Heatleys Safety & Industrial
- Industrial Supply Group
- BSA Brands (UK)

W: www.heatleys.com.au

W: www.isgaus.com.au

W: www.bsabrands.co.uk



Stock Management and Future Supply

Operating internationally, we have had the benefit of seeing the COVID-19 situation unfold early compared to the rest of Australia. We reacted very quickly late January to the threat of COVID-19 and significantly increased our investment in inventory in response to the current situation. In summary, the action taken included:

- **Priority Product Lines** - assessment of our A and B class lines, increased stock levels and secured good ongoing continuity of supply.
- **Top 200 Suppliers** - we worked with our top 200 suppliers, asking them to review their top selling lines with us and provide assessment of current stocks and a forward outlook on supply. Again, we increased inventory on core line items.
- **Alternative Products** - where a manufacturer may have had limited or impacted supply we quickly sourced an alternate supplier to ensure continuity of supply was assured across all products.
- **We serve large to small size customer types across multiple industries** - customers order through multiple sales channels including through our Online ecommerce channels. Our products are sold typically to the Industrial and Trade sectors and the broader general workplace business environment. We have helped our customers by adopting a number of new communication practices including virtual meetings to keep the orders flowing. The productivity of our sales force is expected to remain strong.

Essential, Emergency or Critical Products (P2 masks, disposable overalls, hand sanitisers and toilet paper)

We have secured stock of these products and have placed forward orders with manufacturers for ongoing supply which are in transit. As you will appreciate, these products are in very high demand and therefore we will prudently allocate in small portions to existing customers to achieve an equitable outcome.

Distribution Planning

The management of COVID-19 and the health and welfare of our employees is paramount. We recognise that at a point COVID-19 may impact on our operations. We have developed a range of contingency strategies to limit the impact on supply including the use of staggered teams, alternate branches, reconfiguration of our work spaces, work from home arrangements and other revised operating platforms and structures to ensure that we will be able to meet our customers' product demands during this period.

We are very confident that through the work that has been undertaken by our operational and inventory teams, in conjunction with our suppliers, that we are well positioned to ensure that customers have continuity of supply required for all of their operations during this time.

Health & Safety: reducing risks for employees, suppliers and customers

The health and safety of our employees and people we interact with has been a top priority. We have developed a range of contingency strategies and have adopted the recommended government protocols to limit the impact and potential for spread of the virus across all our workplaces.

Distancing measures have resulted in us adopting a three team structure that consist of primary roles and support functions across multiple operating divisions to manage today's environment and any future modifications. Teams are broken up into: critical members, functional members involved in inbounds logistics, order fulfilment and distribution, and the sales force including customer service and administrative staff who have flexibility of working either onsite or offsite. This "team" structure allows us to maintain the same standard daily productivity levels across the entire workforce.

An Australian Multinational Distribution Group

To protect our work environment, we have also adopted stringent cleaning practices in all office and operational work areas, implemented restricted site access procedures, restricted employee travel, and adjusted how our sales force interacts with customers and suppliers to guarantee service delivery.

Supply Chain Continuity “Ready to Serve”

Over the past eight weeks we have been active in contingency planning across the Stealth group of companies, operationally, financially and strategically. As a consequence, we believe we are well ahead of the curve in this regard and are relatively well prepared. This was an important decision and competitive differentiator in the current market as a large proportion of smaller and medium sized competitors are finding it hard to supply customers because they do not hold adequate inventory.

It is important to reinforce that our main business in Western Australia and South Australia is well stocked with approximately ~80,000 line items, \$6.5m of inventory on hand allowing us to remain important to our customers supply channels.

We source from multiple countries around the world including Australia, providing diversity and strong replenishment arrangements in our supply chain. The strength of our distribution model allows us to continue to meet the supply demands of our customers today and in the foreseeable future.

Trading Performance

Approximately 80% of our business is in Australia. March sales have been up in Australia due to the strong demand for our essential everyday products as stated earlier. We began the calendar year on budget, February sales were slightly down. The diversity and essential nature of many of the products and services provided by our Australian businesses remain important to customers in a range of economic scenarios. While there is limited availability in certain product categories, due to high demand, we do not expect supply chain constraints to have a material impact on trading performance in our Australian businesses.

We have not seen the same pattern though in our African business and in our BSA Brands joint venture in the UK. We have seen some weakness due to the disruption to customers' normal operations. The UK market in general went mostly into lockdown over the past week. As a result, we are reviewing these two areas and considering the actions we need to take over the coming weeks and months ahead. The Company is also undertaking a range of measures to ensure that its costs are reduced to better match the short term environment.

Like many other companies operating in this time of heightened business risk and thereby, uncertainty, the Company is not able to provide an estimate of the impact of COVID-19 on Stealth's full year financial results. As a consequence, the short term organic growth target of 10% for FY20, outlined in Stealth's half year report, has a much higher degree of risk associated with it.

Working Capital

As outlined in our H1 2020 half year report released only recently on 28 February, Stealth has a strong balance sheet with minimal debt levels. The Company has approximately \$4.5m in available working capital facilities and will continue monetising its inventory balance. Given the importance of cash in this environment, we are closely monitoring our working capital, as well as our cost base.

In Closing

Management acted swiftly following these extraordinary circumstances impacting global markets. Today, we are in a good position operationally, financially, and strategically to manage today's economic environment where our underlying business

in Australia remains' strong. Despite the continued sales growth in Australia to date and diminished supply chain risks, customer behaviour is expected to continue to be lively and represents a risk for sales across the Company as Australian and other governments take action to contain the impact of COVID-19.

From a strategic perspective, the decisions we have made are based on setting the Company up for future success and outperformance that will deliver shareholder value. The current market and economic volatility does not change our long term growth aspirations and the execution of our strategic plan to achieve these. We remain committed to our BSA joint venture with Bisley in the UK and will continue to invest in and expand our distribution capabilities and product lines where the financial returns support this. However, we are monitoring more closely than ever the changing market conditions and will adapt accordingly to remain strong and adjust in the short-term to focus on managing the events associated with COVID-19.

Despite these very challenging times, our dedicated employees have put in a tireless effort to ensure we continue to maintain our organisational health and help with the demands of our customers.

I would like to thank our shareholders for your patience. I hope to provide further communications to keep you updated as we navigate these challenges.

Yours Sincerely

Mike Arnold

Group Managing Director & CEO

This announcement was authorised to be given to the ASX by the Board of Directors of Stealth Global Holdings Ltd.

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About Stealth Global Holdings

Stealth Global Holdings is an Australian multinational distribution group providing everyday workplace consumable products and supply chain solutions to business customers. As a supplier and distributor, we offer a comprehensive assortment of products to support customers with purchasing options and solutions that are essential in the operation of their business. The groups diversified product portfolio of distributed brands and proprietary brands are focused in Safety, Industrial and Workplace product categories, sold to the Industrial, Trade and Retail customer markets. The group serves approximately 3,000 customers, large and small, across a variety of industry sectors. Headquartered in Perth, the group operates in Australia, UK, Africa, Asia, Europe under three competitive brands, Heatleys Safety and Industrial, Industrial Supply Group, and BSA Brands (UK) a joint venture with Bisley Workwear.

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