

ASX / MEDIA RELEASE

31 AUGUST 2020

Stealth Reports 2020 Full Year Results

Summary:

- **Increased revenue drives positive earnings in FY20**
 - › Revenue \$68.1 million, up 8%, despite COVID-19 impact in 2H
 - › Underlying EBITDA¹ of \$3.2 million (FY19 \$1.9 million)
 - › Growth Related Investment costs of \$1.77 million (FY19 \$1.0 million)
 - › Net Profit After Tax of \$0.1 million (FY19 \$0.5 million)
 - › Gross Profit 2H-20 of 28.2%, up from 24.3% FY19 and 18.5% FY18
 - › 2H growth momentum and earnings impacted by COVID-19 as Australian borders closed and the UK market entered lock down
- **Solid balance sheet provides stability and growth funding capacity**
 - › Low Net Debt of \$1.4 million with year-end cash balance \$1.1 million
 - › Strong working capital position with \$5.2 million available finance facilities
- **Strong operational performance with record revenue in Australia**
 - › Record annual revenue performance in Australia, increase of 36% on pcp
 - › Reduced total number of suppliers by 47% (641), leveraging better buying power and driving efficiency gains
 - › In the UK, 74 distributor new store locations now ranging Bisley Workwear
- **Positive outlook supported by growth in customer base**
 - › Competitive advantage as a diversified business, in different market sectors, underpinned by essential everyday items and strong supply chain capability
 - › Total customer accounts increased by 405 to 11,630, with high level of repeat sales activity across customer base
 - › BSA Brands (UK) secured YTD \$1.5 million of new orders for FY21, surpassing FY20 total sales
 - › Strategic objective to grow group revenue to over \$200m with EBITDA margin of 8%+ by 2025

Stealth Global Holdings Ltd (Stealth) (ASX: SGI), an Australian multinational distribution group providing essential everyday workplace items and supply chain services to business customers and retail customers, has reported revenue of \$68.1 million for the year ended 30 June 2020. The result reflects an 8% increase on FY2019, with Australian operations recording record annual revenue of \$57 million, up 36% on the prior year.

Group sales in the second half of the financial year were approximately \$10 million less than the first half, impacted by COVID-19 disruptions and the strategic decision to exit a low margin Africa contract with Stealth's largest customer. The exit from this contract led to an anticipated

¹ Adoption of AASB 16 Leases effective 1 July 2019, no FY19 restatement required by Accounting Standards. Underlying EBITDA is gross of investment activities of \$1.77 million (2019: \$1 million).

BOARD

Chris Wharton
Chairman

Michael Arnold
Group Managing Director

John Groppoli
Non-Executive Director

Alan Cransberg
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)

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W: www.isg.us.com.au

W: www.bsabrands.co.uk



\$6.4 million reduction in Africa sales in the second half of FY20, and significantly improved the Group's gross profit margin to 28.2% in the second half (1H2020 25.4%). Up from FY19 at 24.3% and FY18 at 18.5%.

Group Managing Director Mike Arnold said "Stealth has continued to grow its revenue and customer base in FY2020. In fact, it is the first time in the Company's history that the Australian operations have achieved annual revenue in excess of \$55 million. It is pleasing that Stealth was able to materially grow underlying EBITDA, and also deliver a profit in what has been an extremely unusual, turbulent and challenging period for our business and our customers.

"While we have geographically diverse business operations, COVID-19 has caused global disruption which impacted our positive sales momentum in the second half. This was particularly the case with BSA Brands where the UK economy effectively shut down from March until the end of June.

"Strict cost and cash management disciplines have contributed to Stealth's positive financial result this year, and we have continued our methodical approach towards value creating acquisitions. We did not proceed with a significant opportunity due to earnings not supporting the valuation. Complementary acquisitions are an important part of our growth strategy, and we continue to progress work on select opportunities.

"While the global economic outlook remains challenged by COVID-19 and uncertain, I am confident Stealth is well positioned to deal with the challenges ahead and capitalise on opportunities. The diversity of our customer base and the vast nature of the essential everyday items we sell is expected to provide a steady flow of recurring sales activity and growth opportunities over coming years."

2020 FULL YEAR RESULTS

Group Revenue was \$68.1 million, up 8% on FY2019. This included a full year contribution from Heatleys which was acquired in September 2018. Underlying group EBITDA was \$3.2 million, (FY2019 \$1.9 million) before expenditure on investment activities of \$1.77 million, after adjusting for new lease accounting standard AASB161.

Statutory Net profit after tax was \$0.1 million, with earnings for the second half of the financial year being impacted by the disruption caused by COVID-19. In response the Company implemented significant cost control measures during the lockdown, removing \$1.4 million of annual fixed cost.

The Company's disciplined and prudent financial management practices resulted in a reduction of net debt in the second half by \$0.6 million to \$1.4 million, and ending the year with a cash balance of \$1.1 million.

Australia Revenue

Stealth's Australian operations recorded record annual revenue of \$57 million, up 36% per cent on the prior year. These comprise the Heatleys Safety & Industrial, Industrial Supply Group (ISG), Australian Workplace Supplies, and represent around 83% of total Group revenue.

Whilst sales reflected a record increase driven predominantly by Heatleys, so did Operating Profit before Corporate and Investment costs, growing to 8.6% from 6.6% FY19 and 5.1% FY18. This was achieved, despite a 20.3% decline pcp in sales in Q4 due to COVID-19. Heatleys operations are predominantly Western Australian and South Australian based where COVID disruptions have been less severe and continued to function albeit in a reduced capacity supported by the Jobkeeper allowance and other government incentives that enabled Heatleys to retain all of its employees.

Heatley's acquired the Protect-A-Load business and product range in October 2019 achieving good sales in FY20. Strong future sales are expected as the range is expanded to new customers in Western Australia and at a national level.

International Revenue

In its first full year of operations in the UK, BSA Brands (UK) a 50/50 joint venture with Bisley Workwear, established 74 new distributor stores across the UK. BSA delivered revenue of \$1.09 million. This involved significant investment in inventory,

An Australian Multinational Distribution Group

people and marketing, including promotional panels on 89 buses operating throughout the UK building brand awareness in this new marketplace. In a \$1 billion addressable market, this upfront investment was driving strong positive sales whilst maintaining an average 36% gross profit margins.

COVID-19 resulted in the UK economy closing down in March to the end of June, and sales during this period reduced to minimal levels with store expansion paused. Consequently, BSA delivered a full year consolidated EBITDA loss of \$1m to the Group, which resulted in an after-tax loss of \$0.42 million for Stealth's 50% interest. Between March and June, BSA management responded by significantly reducing its cost base and resetting its distribution channels to provide a stronger business for the future. As a result, in the first two months of FY21, BSA Brands has secured new orders of approximately \$1.5 million at high gross profit margins, surpassing FY20 full year sales received on a lower cost base. Positive signs of the UK market opening up for business are underway and sales demand is expected to return in the second half of FY21.

Sales into Africa were \$10.4m for the year (FY2019: \$21.1m) declining by half as the company reset and focused on more profitable customers in its major trading regions and tailored product categories. This was a strategic decision, communicated in December 2019, and taken to improve operating margins. It resulted in relinquishing the Company's single largest customer where price declines had eroded margins to single digit gross profit contribution with a high cost to serve. The reduction in low margin Africa sales has since been largely replaced by new higher margin sales in Australia and the UK businesses.

Investments and Acquisitions

Expenditure on investment activities was \$1.77 million. Key investments made were in eCommerce digital platforms (\$0.17m), first year implementation of BSA Brands into the UK marketplace (\$0.49m), senior people on growth transformation projects (\$0.65m), and acquisition advisory and due diligence costs (\$0.46m). These related to the completed acquisition of Protect-A-Load and uncompleted evaluation of a significant acquisition opportunity that the Company did not complete due to shortcomings in earnings valuation criteria.

A key area in Stealth's strategy is making complementary value generating acquisitions. The Company completed the acquisition of Protect-A-Load in October 2019, which designs innovative ergonomic ratchets and straps, supplied into the Australian market, along with patented lockable cargo nets. This expanded both the product range and addressable customer market under Heatleys operations.

Stealth also identified and assessed a number of other potential acquisitions of scale, investing significant management time and working with external advisors to undertake due diligence and assessment of strategic fit to the Company's disciplined criteria. Several material strategic opportunities are still being considered to deliver value accretion.

COVID-19

The second half of the financial year was significantly affected by the economic and social impact resulting from COVID-19, as well as the necessary measures implemented by the Company, its customers and governments across the globe to manage the risk posed to human life.

The measures implemented to prevent the spread of COVID-19 impacted the Company's operating environment, resulting in the delay, deferral and reduction of sales across a broad range of the UK and Africa regions, and the temporary deferral of expansion of distributor stores in the UK and progressing potential new customer arrangements.

In Australia, our large customers reduced non-essential work and delayed discretionary expenditure. These customers significantly scaled down operations, particularly in fly-in, fly-out operations as delays on several large construction projects occurred, reducing spend by approximately 40% in Q4 against the same period in FY2019. Our mid and small tier customer group held up well in Q4 maintaining repeat purchases. Overall Australia Q4 sales reduced 20.3% against the same period in FY2019.

The Company successfully navigated a turbulent second half, and continues to take a number of proactive measures to ensure the long-term sustainability of the business and to protect the safety and wellbeing of its employees, customers and the communities in which it operates.

An Australian Multinational Distribution Group

Stealth appointed a project team in January 2020 to manage its response. This involved working with customers, suppliers, government agencies and health organisations to establish and implement required safety protocols. A significant number of financial and operational measures were implemented including a targeted cost reduction and cash management plan to preserve business profitability. This included proactively engaging with employees, suppliers, landlords and advisors, reigning in expenses, renegotiating leases, and managing payroll costs. These initiatives delivered an annual fixed cost reduction of \$1.4m, which will also result in a stronger business with an appropriate cost base into the future.

The COVID-19 situation provided some new sales opportunities for the Company. New customers were gained in Q4 including new arrangements with Government bodies in Western Australia, Aged Care, Hospitals and Schools where the Company supplied its range of Safety PPE, Masks, Gloves, Sanitizers, Cleaning, Hygiene and other related consumables that will be ongoing in the future.

With preventive government measures gradually being lifted in Western Australia and South Australia which account for a significant proportion of Australian operations, demand from customers has been steadily improving. The business has seen a stabilisation of Customer activity and large scale projects are making a recovery over recent months. As a result the jobkeeper entitlement for the Heatleys business is not expected to be available post 1 October, another positive sign of stronger sales.

The Company continues to monitor the situation and adapt its response plans accordingly.

STRATEGIC OBJECTIVES AND OUTLOOK

Stealth made good progress on its markets and growth strategy in FY2020 despite the interruption caused by COVID-19, with additional customer accounts growing by 405 to 11,630 since the beginning of the financial period.

While the global economic outlook in the wake of COVID-19 remains uncertain, the resources, construction, transportation, infrastructure and trade sectors are expected to provide a steady flow of opportunities over coming years. As will the Groups product range of essential safety/PPE, cleaning, janitorial, gloves, masks, sanitisers and other hygiene related items. The Company has a strategic objective of reaching \$200m of Revenue by 2025, and growth related investments will be integral to achieving this.

Key growth related investments include:

1. The development of the core business - serving more customer types, expanding geographically, undertaking value chain integration, moving to adjacent fields, expanding income and profit generating activities, and furthering employee development through a Centre of Excellence framework based on leadership, training and internship programs;
2. Significantly expanding digital capabilities to better serve a growing customer base and buying behaviour through online ordering options, delivering a new online B2B and B2C experience with the eCommerce platform Magento, a world class leader in B2C and B2B Commerce and continuing systems automation all driven by the Chief Technology Officer;
3. Continuing to build, establish and rollout the Bisley Workwear brand in the UK market, through BSA Brands; and
4. Identifying and evaluating value accretive acquisition opportunities to grow the portfolio of businesses to deliver a comprehensive products, sales & marketing, fulfilment and distribution network.

Stealth has a strong balance sheet with little net debt, has a growing and diverse customer base, and provides essential everyday items for customers resulting in a steady flow of recurring sales activity. The Company is therefore well positioned to deal with the challenges ahead and capitalise on investment and growth opportunities over coming years.

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

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Stealth Global Holdings is an Australian multinational distribution group providing essential everyday workplace items and supply chain services to business and retail customers. As a supplier and distributor, the group offers a vast assortment of products to support customers with purchasing options and solutions that are important in the operation of their business. The group serves approximately 3,000 customers, large and small, across a variety of industry sectors. Customers place orders online, on mobile devices, through sales representatives, account managers, over the phone, by email, at local branches, affiliates trade stores and retail outlets. Headquartered in Perth, the group operates in Australia, United Kingdom, Africa, Asia under three competitive brands, Heatleys Safety and Industrial, Industrial Supply Group, and BSA Brands (UK) a joint venture with Bisley Workwear.