



TRADING UPDATE: STEALTH EXPECTS TO DELIVER EARNINGS UPLIFT

Stealth Global Holdings Ltd (ASX: SGI) (Stealth or the Company) a leading Australian based multinational distributor of industrial, safety & workplace products serving various markets across its diversified business portfolio in Australia, United Kingdom, Asia and Africa, is pleased to provide a trading update ahead of releasing its final reviewed results for 1H 2021 on 26 February 2021.

1H 2021 Highlights

- > **Regained positive sales and earnings momentum after change in Africa strategy in December 2019 to refocus on more profitable customers.**
 - Sales of \$30.4 million, down \$9.3 million (\$8.2 million Africa) or 23% on 1H 2020, but up 7.0% on 2H 2020, with a particularly stronger 4Q (October - December).
 - Gross Profit margin increased to 28.1% from 25.4% in 1H 2020.
 - Underlying EBITDA¹ of \$2.1 million up 20% on 1H 2020, and up 46% on 2H 2020. A record half-year result for Stealth.
 - Statutory EBITDA of \$1.15 million, up 57% on 1H 2020, and up 68% on 2H 2020. A record half-year result for Stealth.
 - Statutory Net Profit After Tax of \$0.17 million (including \$0.95 million of investment related costs) versus NPAT of \$0.03 million in 1H 2020 and \$0.07 million in 2H 2020.
- > **Strong balance sheet maintained, providing stability and growth funding capacity.**
 - Cash of \$2.45 million as at 31 December, up by \$1.37 million on 30 June 20. Strong working capital position with approximately \$5.0 million available on 31 January 2021.
 - Net Debt of \$3.45 million as at 31 December, up by \$2.07 million following acquisition of C&L Tool Centre in December 2020, and pay down of \$0.38m during the half year.
 - Total Group finance facilities of \$10.5 million. (previously \$7.4m), following establishment of new bank arrangements with Commonwealth Bank in January 2021.
- > **Positive outlook supported by improving business conditions, new acquisition & organic strategy**
 - Stealth remains on track for longer term growth targets. Its strategic aim is to reach \$200m revenue with EBITDA margin of 8%+ by 2025, combining organic and acquisitive pathways.
 - Positive sales and earnings momentum expected to continue with uplift from organic growth plans, launch of new eCommerce channels, and new acquisition opportunities.
 - The recently completed \$3.83 million acquisition in December 2020 of Queensland market leading distributor 'C&L Tool Centre' (C&L) adds annual sales of \$14 million and annual EBITDA of \$1.3+ million. C&L will contribute sales & profit in the full 2H 2021 period.

Trading Update

Stealth's trading performance continued to improve in 1H 2021, building on the momentum started in the second half of FY2020. Revenue returned to positive growth, up 7% on 2H 2020.

¹ Underlying EBITDA results reflect the Directors' assessment of the result for the ongoing business activities of the Company to exclude acquisition and investment costs of \$0.95 million (1H-2019: \$1 million) relating to the acquisition of C&L Tool Centre, establishing new bank finance arrangements, paid redundancies caused by COVID-19, one off two-year tenure bonus paid to five key executives of Heatley's post October 2018 acquisition and growth-related investments where no or little corresponding revenue has been received in the period but is expected in future periods. EBITDA reflects the underlying Earnings Before Interest, Tax, Depreciation, and Amortization and is a non-IFRS measure.

BOARD OF DIRECTORS

Chris Wharton
Chairman

Michael Arnold
Group Managing Director & CEO

John Groppoli
Non-Executive Director

Alan Cransberg
Non-Executive Director

Karen Logan
Company Secretary

ISSUED CAPITAL

99.7 million Ordinary Shares

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GROUP OPERATING BRANDS

- > Heatleys Safety & Industrial
- > C&L Tool Centre
- > Industrial Supply Group
- > Australian Workplace Supplies
- > BSA Brands (UK)

WEBSITES

- > www.heatleys.com.au
- > www.ctoolcentre.com.au
- > www.isgaus.com.au
- > www.awsonline.com.au
- > www.bsabrands.co.uk

COVID-19 continued to impact overall market conditions, however the Company has managed costs, retained customer relationships, and customer activity has been returning.

As a result of the change in the Company’s Africa strategy in December 2019 to refocus on more profitable customers, group revenue was down 23% on 1H 2020, however earnings have significantly improved in line with the strategy. The Company delivered a record statutory EBITDA, higher gross margin %, and higher statutory Net Profit on the lower revenue base.

Group Managing Director Mike Arnold said “while the past year has presented plenty of challenges for Stealth from COVID-19 and from restructuring our largest customer relationship, the Company has made some key strides in the first half that bode well for the future. We delivered a solid sales performance and achieved our best first half earnings. In fact, it was a record half-year result for Stealth, bolstered by a strong pivot to higher margin business, leveraging scale, and serving both business & retail customers.

“In addition, through strict cash and capital management we have retained a solid balance sheet, kept debt at relatively low levels and increased our funding capacity for growth. We have continued our disciplined approach towards value creating acquisitions completing the purchase of C&L Tool Centre Queensland in December 2020. C&L will add some \$14 million of sales to our group plus numerous scale benefits to be leveraged. Pleasingly, C&L is already trading ahead of internal forecasts. Complementary acquisitions are an important part of our growth strategy, and we continue to progress work on other opportunities.

“We are very encouraged by what is expected to be stronger trading in the second half of FY21, demonstrated by a strong quarter period between October-December 2020 in the 2020 calendar year. The Company has found success in attracting new customers requiring PPE and safety gear with encouraging signs of repeat buying but has come back for other product needs”.

Table 1 below provides an overview of Stealth’s preliminary results for 1H 2021, and comparisons to the prior half year results.

Table 1: Stealth 1H 2021 Financial Highlights

	1H 21 Result 31 Dec 2020	2H 20 Result 30 June 2020	1H 20 Result 31 Dec 2019
UNDERLYING RESULT	\$ millions	\$ millions	\$ millions
Group Revenue	\$30.4m	\$28.4m	\$39.7m
Australia Sales	\$28.5m	\$25.6m	\$30.0m
BSA Brands (JV) UK Sales	\$1.1m	\$0.4m	\$0.7m
Africa Sales	\$0.8m	\$2.4m	\$9.0m
Underlying EBITDA	\$2.1m	\$1.4m	\$1.7m
Underlying EBITDA Percentage	6.9%	5.1%	4.4%
Gross Profit Percentage	28.1%	28.2%	25.4%
Acquisition & Investment Costs	\$0.9m	\$0.8m	\$1.0m
STATUTORY RESULT			
EBITDA	\$1.15m	\$0.68m	\$0.73m
Net Profit After Tax attributable to members	\$0.17m	\$0.07m	\$0.03m
Cash	\$2.45m	\$1.08m	\$1.40m
Net Debt before C&L acquisition	\$1.00m	\$1.38m	\$1.97m
Total Net Debt including C&L acquisition	\$3.45m	\$1.38m	\$1.97m
Net Assets	\$13.36m	\$12.73m	\$12.91m

Australia Trading

Sales in Australia declined by 6.5% in 1H 2021 compared to 1H 2020 largely as a result of the impact of COVID-19. However, sales improved by 11.3% compared to 2H 2020 as states and regions managed restrictions and lockdowns supported by Government economic stimulus.

The COVID-19 situation bolstered by a strong pivot to PPE and other related products created sales opportunities for the Company. New customers were gained including new arrangements with Government bodies in Western Australia, Aged Care, Hospitals, Schools and in Construction 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. These products continue to be high demand.

International Trading

BSA Brands (UK) a 50/50 joint venture with Bisley Workwear, delivered revenue of \$1.09 million up 56% or \$0.4m compared to a year ago and even stronger uplift compared to 2H 2020 by \$0.7m. After establishing a network of 74 new distributor stores across the UK and 4 in Africa during FY2020, the UK economy effectively shut down from March 2020 and continues to be impacted causing a temporary deferral of expansion of distributor stores in the UK and progressing potential new customer arrangements. That said, Sales and Operating Profit has significantly improved compared to a year ago powered by the investment made in FY2020. In a \$1 billion addressable market, the Company remains committed to developing the Bisley range in the UK and Africa markets.

Other Sales into Africa were \$0.8m for the half year compared to \$9.0m a year ago which was expected as the Company reset and repositioned its focus on more profitable customers in its major trading regions and tailored product categories into this market. 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 direct Africa sales whilst considerable, has had little impact on profit to the Company, largely replaced by new higher margin sales in Australia and the UK businesses and sizeable reduction in operating expenses.

Major Investments and Acquisitions

A key area in Stealth's strategy is making complementary value generating acquisitions. Stealth identified and assessed several 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. Stealth completed the \$3.83 million acquisition of C&L Tool Centre on 1 December 2020 adding annual sales of \$14 million and annual EBITDA of \$1.3+ million. Expenditure on acquisition advisory, due diligence costs and establishing new bank finance arrangements was \$0.35 million with minimal corresponding revenue but is expected in future periods. These costs included an evaluation of a significant acquisition opportunity that the Company did not complete due to shortcomings in earnings valuation criteria from a change in market conditions. Several opportunities are still being considered that will be value accretive.

Key advancements have been made in eCommerce digital platforms where Stealth invested \$0.31 million. In January 2021 the Company launched the new Bisley United Kingdom B2C Online e-store. Three other new Online e-store websites will be launched in March and April 2021 for business and retail customers in Australia. This is expected to deliver increased sales across the group from having a world-class capability to fully integrate systems with business customers, suppliers and partners complete with comprehensive Online sales platforms to business and retail customers with full data analytics.

COVID-19

The first half of the financial year continued to be affected by the impact 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.

Stealth used the period to challenge its cost base and has reduced its operating cost structure. Some redundancies unfortunately had to be undertaken at a cost of \$0.1 million. The Company continues to successfully take several 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.

With preventive government measures gradually being lifted in Western Australia, Victoria, New South Wales and Queensland, demand from customers in these geographies has been steadily improving with stronger sales expected in the second half of FY2021 subject to any further government lockdown measures being undertaken. The Company continues to monitor and proactively manage ongoing impacts from COVID-19. The situation is constantly evolving and may impact earnings in the future.

In the United Kingdom, FY21 Sales and Profit will exceed FY20, driven by the investment made in FY20 placing Bisley product

throughout some 80 distribution locations across the UK and in Africa. The UK economy remains restricted and we have a temporary deferral on establishing more distributor stores and progressing potential new customer arrangements. This is expected to ease in the coming months as the COVID-19 vaccine is rolled out to the community and as we enter warmer weather conditions.

Outlook and Growth

Stealth has a diversified business portfolio and a growing customer base. The vast nature of the wide-ranging products it sells is expected to provide a steady flow of repeat sales activity in future periods, whilst new integrated supply chain service offerings will generate new income and profit streams.

Stealth continues to make good progress on its strategy seeing positive results from all parts of the business, despite the interruption caused by COVID-19. The Company is very encouraged by stronger trading conditions expected in the second half of FY2021 and is well positioned to capitalise on growth organically and by acquisition, together with the upcoming launch of two new Online e-stores tailored for customers in trade, retail and business and its e-business platform specifically for business customers.

As we enter calendar year 2021, January and February are off to a good start with greater than 5% year-over-year growth. The integration and financial performance of the recent C&L acquisition is expected to also support a stronger second half of FY2021 and beyond, subject to any further disruptions because of COVID-19 restrictions. C&L provides a new geographic location in Queensland with an east coast distribution hub to better serve customer expansion.

While the global economic outlook in the wake of COVID-19 remains uncertain, in Australia, trading conditions are positive for Stealth's business and expected to provide Stealth with growth over coming years, particularly from the resources, construction, building, transportation, infrastructure, trade sectors and Online buying from general retail consumers. Successful recent capital raisings for junior and intermediate mining companies supported by strengthening commodity prices such as Iron Ore and Gold, has resulted in new contract awards to 'services contracting' firms delivering strong levels of tendering activity for Stealth.

The Company has the aim of reaching \$200m of Revenue by 2025. It remains on track for longer term growth targets. Organic growth-related programs and further acquisitions will be integral to achieving this.

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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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About Stealth Global Holdings

Stealth Global Holdings Limited (ASX code: SGI) is a leading Australian Public Listed multinational distribution group. Headquartered in Perth, Western Australia, it holds interests in Australia, United Kingdom, Asia and Africa under five competitive subsidiary brands Heatley's Safety & Industrial, C&L Tool Centre, Australian Workplace Supplies, Industrial Supply Group and BSA Brands (UK) a joint venture with Bisley Workwear. The diversified business operates as a distributor of Industrial, Safety & Workplace Products and a provider of Supply Chain Solutions to more than 4,000 business customers and 34,000 retail customers across a variety of industry sectors. Its vast range of products are stocked in distribution centres, across its widespread store network and onsite locations supported by sales & service specialists, eCommerce Online digital channels, fulfillment operations, delivery systems and strong marketing, content, and advertising programs.