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ASX/MEDIA STATEMENT
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AHG REPORTS HALF-YEAR RESULTS AND STRATEGIC REVIEW OF REFRIGERATED LOGISTICS

Key metrics

Note: Prior period figures restated to include Refrigerated Logistics, which had been classified as "Held for Sale" at 31 December 2017.

→ Group revenue of $3.22 billion [$3.17b pcp]
→ Statutory NPAT of ($225.6 million) [$40.7m pcp]
→ Statutory EPS (68.0 cents) [12.1 cents pcp]
→ No interim dividend declared to strengthen balance sheet
→ Operating[1] EBITDA of $93.4 million [$111.4m pcp]
→ Operating[1] EBITDA margin 2.9% [3.5% pcp]
→ Operating[1] NPAT of $24.2 million [$42.1m pcp*]
→ Unusual items and non-cash impairment totalling $249.8 million

Operating1 – excludes unusual items

Result

Automotive Holdings Group Limited (ASX: AHG) has announced Operating[1] NPAT for the six months to 31 December 2018 of $24.2 million. The Company recorded a Statutory loss of $225.6 million.

Included in the statutory result are unusual items and a non-cash impairment to the carrying value of its Automotive and Refrigerated Logistics businesses, as detailed in an ASX announcement on 15 February 2019 and further explained in the half-year accounts lodged with this announcement.

The Board will not declare a dividend for six months to 31 December 2018 to allow the Company to reinvest in the balance sheet and build long term shareholder value.

AHG managing director John McConnell said the result reflected a tough first half for the Company but also an opportunity to reset with initiatives already taken and proposed.

"Automotive retail across the country is tough and that is reflected in the half-year earnings result. That has obviously impacted the share price and while we are not happy with that, the market conditions also presented an opportunity to take some tough decisions and clean up the Company's balance sheet. That process and the consequential accounting adjustments are very deliberate and focused on simplifying AHG's operations so we are ready and able to capitalise on opportunities," he said.

"There is no doubt that our businesses have been adversely affected by regulatory changes that have impacted our traditional strength in finance and insurance sales, our exposure to lower-growth brands and locations, and the results in the reporting period of some of our non-automotive businesses, however we remain confident in our strategy," said Mr McConnell.

"To manage through the current cycle, we are taking a disciplined approach to address costs across the business, including headcount, the expansion of shared services and the reduction of non-floorplan debt to strengthen the balance sheet and to position the Company for the future," he said.

As part of the process the Company has taken the decision to close a number of under-performing businesses, which is reflected in the unusual items for the period.

The Company has a near-term target of a further $23 million in recurring cost reductions for FY2020.

Balance sheet and cash management

"With the uncertainty around the automotive industry outlook and the strategic growth initiatives we have in front of us, AHG has elected to take a prudent approach to its balance sheet. The decision to modify the dividend policy is appropriate in an environment where market conditions continue to be challenged, and we see the emergence of bottom of the cycle opportunities in the auto franchise sector. The Board and management remain focused and vigilant around cash management and reducing the Company's gearing position to allow flexibility in the current conditions," said Mr McConnell.

"Today we announce the temporary suspension of our existing dividend policy of 65% to 75% of operating profit after tax while we move towards our targeted gearing range of 1.5 times to 1.75 times," he said.

"We have a number of initiatives underway that are focused on improving working capital management and inventory management while minimising capital expenditure."

As at 31 December the Company's net debt position (excluding floorplan) is $284.7 million. A number of significant working capital movements impacted net debt for both reporting periods, and on a normalised basis approximately $35 million of debt was paid down for the six months ending 31 December.

AHG remains in compliance with all of its banking covenants and is currently in advanced discussions with its banks to refinance components of its debt facility that mature in April 2020.

Strategic Review of Refrigerated Logistics

AHG announces that it has commenced a strategic review of the Company's Refrigerated Logistics business and has appointed UBS and Luminis Partners as joint financial advisers.

The review will consider all options to maximise value for its shareholders.

Mr McConnell said the transformation program of Refrigerated Logistics is well progressed, and now is the right time to consider go-forward options for the business.

"The transformation program undertaken since early FY2017 has established Refrigerated Logistics as a fully integrated service provider in temperature-controlled transport and storage with improved operating efficiency and an enhanced ability to realise the benefits of its market leading position. The strategic review will assess how future growth opportunities can best be unlocked, including through potential changes in ownership, partnerships or mergers", Mr McConnell said.

Outlook

Consistent with the decline in the Automotive market, AHG advises its forecast for full-year Operating[1] NPAT is now in the range of $52-million to $56-million (previously $56 million to $59 million).

The Refrigerated Logistics division is delivering an improved performance following the recent transformation program and the business has a strong business development pipeline. H2 performance in RL will be a substantial improvement over pcp and that will add to Group earnings momentum.

"In the near term, **easyauto123** is on target to break even by the end of Q4 of FY2019 after a significant investment phase over the past two years. That will improve the H2 result for **easyauto123** and will also add to Group earnings momentum leaving FY19," said Mr McConnell. "We are seeing signs of stabilisation in the new and used car sectors on the east coast of Australia and in New Zealand but we remain cautious about trying to predict the market in the short term," he said.

"We remain the largest new vehicle retailer in Australasia, with a network of strong brands in strategic locations; we are the largest scale player in Australia in integrated temperature-controlled transport and cold storage with a solid pipeline of business development, and we are also well placed to become the market leader in used car sales through our investment in the **easyauto123** business."

Mr McConnell said AHG was best placed to benefit from the inevitable cyclical recovery in the Western Australian market and from manufacturers setting more realistic sales targets across the industry.

"And as the automotive market evolves to accommodate changes in vehicle types such as electric vehicles, and new ways for customers to access transport such as subscription, leasing or improved financing structures, our position ensures we will be a key participant in sales, service and repair of new vehicles. We will also be at the forefront of used car sales and fleet remarketing, and looking to diversify earnings and broaden customer choice through the many adjacent opportunities such as rental and fleet operations and subscription models."

ENDS

About AHG Automotive Holdings Group Limited (ASX: AHG) is a diversified automotive retailing and logistics group with operations in every Australian mainland state and in New Zealand. The Company is Australia's largest automotive retailer, with operations in Western Australia, New South Wales, Queensland and Victoria.

AHG's logistics businesses include AHG Refrigerated Logistics (transport and cold storage), AMCAP (motor parts and industrial supplies distribution), VSE (vehicle storage and engineering), Genuine Truck Bodies (body building services to the truck industry), and KTM Sportmotorcycles and HQVA (KTM and Husqvarna motorcycle importation and distribution in Australia and New Zealand).

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