

Stealth Global Holdings Ltd

United Tools Acquisition

United Tools acquisition adds further revenue synergies

Stealth Global Limited (ASX:SGI) has announced the acquisition of United Tools Limited (UTL) for \$24k, which includes \$1.25m in cash slated for marketing subsidies to retailers over the next two years. UTL is a co-operative buying group supplying ~33 retailers with tools and industrial-related trade products. The business generated FY21 revenues of \$8m, predominantly as income for the management of preferred supplier arrangements, marketing, advertising and shared services for 33 retail stores. FY21 EBITDA was \$0.3m, implying a very attractive acquisition multiple! SGI estimates UTL-supplied retailers purchase ~\$100m at the wholesale level, offering significant buying and cross-selling opportunities. SGI management estimates \$24m in revenue synergies are available at a target EBITDA margin of 10% (\$2.4m) over the next three years, which would add 35% to our existing FY23 EBITDA estimates, all else being equal. We recently upgraded medium-term sales by ~5% on the back of new customer contracts and this may still prove conservative given the expected revenue synergies from the recently-acquired Skipper Transport Parts over the same period. 1HFY22 sales have been confirmed at \$46.5m, in-line with RaaS estimates and +53% on 1HFY21. We are yet to incorporate numbers and await a detailed business update on February 8 for more clarity, but our numbers into FY24 look well-underpinned given these revenue synergy opportunities.

Business model

Stealth Global Holdings is a broad-line distributor of industrial, maintenance, repair, operating (MRO), safety, workplace supplies and other related products and services. Stealth looks to differentiate with its broad in-stock product offer, supply chain infrastructure, deep supplier relationships and e-commerce channels, serving customers of all sizes. Stealth provides supplies and solutions for every industry through a portfolio of five distribution businesses covering business, trade, retail, service and specialist wholesale. The subsidiary brands are Heatleys Safety & Industrial, C&L Tool Centre, Skipper Transport Parts (STP), Industrial Supply Group and BSA Brands (UK), a joint venture with Bisley Workwear. ~95% of revenues are driven from repeat customers.

Continuing to enhance its distribution model

Organic growth at Heatleys, together with the recent acquisitions of STP and C&L Tools, have increased the scale and product offering of the Stealth Group to over 1 million SKU's. This scale has been further enhanced by the acquisition of cooperative buying groups ISG and (soon to be) UTL. Combined it offers consolidated buying power to better compete with the majors and the opportunity for revenue synergies and further range extensions across 66 physical store locations in Australia. The acquisition of UTL offers store expansion for SGI without the need to invest capital to build its own company run store network, and a new income stream in the form of "wholesale distribution and service fees". UTL also offers increased exposure to "retail" as most of the SGI brands are "business" focused.

Base-case valuation remains A\$0.40/share fully diluted

Our base-case DCF valuation for SGI remains \$0.40/share as we are yet to integrate UTL into our numbers. Our numbers incorporate 11-12% sales growth in FY23 and FY24, stable to improving gross margins driven by both scale, private label and business mix, and a relatively stable cost base. Our DCF only implies 12x forecast FY23 EPS and 7.5x EV/EBITDA.

Historical earnings and RaaS Advisory estimates

Year end	Revenue (A\$m)	Adj. EBITDA (A\$m)	Adj. NPAT (A\$m)	EPS adj. (c)	PER adj. (x)	EV/REV (x)
Jun-20a	68.1	3.0	0.4	0.01	22.8	0.22
Jun-21a	69.7	3.0	0.6	0.02	7.5	0.25
Jun-22e	99.4	4.4	1.7	0.02	6.3	0.22
Jun-23e	113.4	6.8	3.4	0.03	4.1	0.19

Source: Company data, RaaS estimates

Distribution – Wholesale

24th January 2022

Share Details

ASX code	SGI
Share price	\$0.14
Market capitalisation	\$14.0M
Shares on issue	99.7M
Enterprise value	\$18.0M
Net debt Jun-2021	\$4.0M
Free float	43.11%

Share Performance (12 months)



Upside Case

- Service-based model takes market share from incumbent players
- Traction in on-line sales in both Australia and the UK following recent investment
- Extracting opportunities and synergies from recent acquisitions

Downside Case

- Acquisitions fail to deliver expected revenues and/or synergies/efficiencies
- Larger competitors react with sharper price offerings
- Mining downturn

Board of Directors

Christopher Wharton	Non-Executive Chair
Michael Arnold	Managing Director
John Gropoli	Non-Executive Director
Simon Poidevin	Non-Executive Director

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Exhibit 1: Financial Summary

Stealth Global (SGLAX)						Share price (20 January 2022)						A\$	0.140
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY19	FY20	FY21	FY22F	FY23F	Revenue	H120	H220	H121	H221	H122F	H222F	
Revenue	62.8	68.1	69.7	99.4	113.4	Revenue	39.7	28.3	30.4	39.3	46.6	52.8	
Gross profit	15.3	18.1	20.2	30.0	34.6	EBITDA	0.8	(0.2)	1.3	1.7	1.7	2.7	
GP margin %	24.4%	26.6%	29.0%	30.2%	30.5%	EBIT	0.7	(0.3)	1.1	1.5	1.4	2.3	
Underlying EBITDA	2.1	0.6	3.0	4.4	6.8	NPAT (normalised)	0.2	(0.5)	0.9	0.8	1.0	1.4	
Depn (ex AASB16)	(0.2)	(0.2)	(0.4)	(0.7)	(0.8)	Minorities	0.2	0.3	0.0	0.0	0.0	(0.1)	
Amort	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(0.0)	(0.5)	0.2	0.3	0.4	1.4	
EBIT	1.9	0.4	2.6	3.7	6.0	EPS (normalised)	(0.000)	(0.005)	0.002	0.003	0.004	0.014	
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.8)	EPS (reported)	(0.000)	(0.005)	0.002	0.003	0.004	0.014	
Tax	(0.2)	0.2	(0.4)	(0.7)	(1.5)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	
Minorities	0.1	0.4	0.0	(0.1)	(0.4)	Imputation	30.0	30.0	30.0	30.0	30.0	30.0	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Operating cash flow	na	na	na	na	na	na	
NPAT pre significant item	1.7	0.6	1.8	2.2	3.4	Free Cash flow	na	na	na	na	na	na	
Significant items (AT)	(1.2)	(0.2)	(1.2)	(0.5)	0.0	Divisonals	H120	H220	H121	H221	H221F	H222F	
NPAT (reported)	0.5	0.4	0.6	1.7	3.4	Australian Revenue	30.0	26.6	28.8	37.7	44.6	50.2	
Cash flow (A\$m)						African Revenue	9.0	1.4	0.5	0.7	0.8	0.8	
Y/E 30 June	FY19	FY20	FY21	FY22F	FY23F	BSA	0.7	0.3	1.1	0.9	1.2	1.9	
EBITDA (inc minority adj)	1.0	1.0	3.0	4.4	6.4	Total Revenue	39.7	28.3	30.4	39.3	46.6	52.8	
Interest	(0.1)	(0.4)	(0.4)	(0.8)	(0.8)	Gross profit	10.1	8.0	8.5	11.7	14.0	16.0	
Tax	(0.6)	0.2	(0.6)	(0.5)	(1.1)	Gross Profit Margin %	25.5%	28.3%	28.1%	29.7%	30.1%	30.2%	
Working capital changes	(0.6)	(1.8)	(0.7)	(0.1)	(2.7)	Employment (net of jobkeeper)	6.4	5.7	5.0	7.0	8.0	8.1	
Operating cash flow	(0.3)	(1.0)	1.4	3.0	1.9	Admin	2.3	1.8	1.6	2.0	3.0	3.3	
Mtce capex	(0.3)	(0.3)	(0.6)	(1.3)	(0.9)	Occupancy (inc rent paid)	0.7	0.6	0.7	1.0	1.3	1.4	
Free cash flow	(0.6)	(1.3)	0.8	1.7	1.0	Total costs (ex transaction)	9.3	8.2	7.3	9.9	12.3	12.9	
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	0.8	(0.2)	1.3	1.7	1.7	3.1	
Acquisitions/Disposals	(7.8)	(0.5)	(2.9)	(4.9)	0.0	EBITDA margin %	1.9%	(0.6%)	4.1%	4.4%	3.7%	5.9%	
Other	0.1	(0.0)	0.0	0.0	0.0	Margins, Leverage, Returns	FY19	FY20	FY21	FY22F	FY23F		
Cash flow pre financing	(8.4)	(1.8)	(2.2)	(3.2)	1.0	EBITDA margin %		3.3%	0.9%	4.3%	4.4%	6.0%	
Equity	11.4	0.0	0.0	0.0	0.0	EBIT margin %		3.0%	0.6%	3.8%	3.7%	5.3%	
Debt	(1.3)	(0.4)	3.5	3.0	(2.0)	NPAT margin (pre significant items)		2.7%	0.9%	2.6%	2.2%	3.0%	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		0.14	1.58	4.02	8.03	7.06	
Net cash flow for year	1.7	(2.2)	1.4	(0.2)	(1.0)	Net debt/EBITDA (x)	(x)	nm	nm	1.34	1.82	1.04	
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	1.1%	14.2%	41.1%	106.5%	57.5%	
Y/E 30 June	FY19	FY20	FY21	FY22F	FY23F	EBIT interest cover (x)	(x)	0.1x	1.2x	0.1x	0.2x	0.1x	
Cash	2.0	1.1	3.1	2.1	1.1	ROA		nm	1.2%	7.1%	7.7%	11.1%	
Accounts receivable	15.9	7.9	11.4	15.2	17.3	ROE		nm	2.9%	4.4%	11.5%	19.3%	
Inventory	6.3	7.9	10.7	15.0	17.9	ROIC		nm	5.9%	87.7%	150.6%	298.5%	
Other current assets	0.6	0.7	1.0	0.7	0.8	NTA (per share)		0.06	0.06	0.04	0.06	0.10	
Total current assets	24.7	17.6	26.3	32.9	37.1	Working capital		5.8	7.6	9.3	13.1	15.8	
PPE	0.6	0.7	1.2	2.3	2.4	WC/Sales (%)		9.3%	11.2%	13.4%	13.2%	13.9%	
Goodwill	6.9	7.1	9.6	9.6	9.6	Revenue growth			8.4%	2.3%	42.7%	14.0%	
Investments	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		nm	(80.2%)	600.5%	40.4%	62.0%	
Deferred tax asset	1.1	1.5	1.6	1.6	1.6	Pricing		FY19	FY20	FY21	FY22F	FY23F	
Right of use asset	0.0	3.5	5.1	5.1	5.1	No of shares (y/e)	(m)	77	95	98	100	100	
Total non current assets	8.6	12.8	17.5	18.6	18.7	Weighted Av Dil Shares	(m)	77	95	98	100	100	
Total Assets	33.3	30.4	43.8	51.5	55.8	EPS Reported	cps	0.006	0.006	0.019	0.022	0.034	
Accounts payable	16.3	8.2	12.8	17.0	19.4	EPS Normalised/Diluted	cps	0.006	0.006	0.019	0.022	0.034	
Short term debt	1.8	2.7	5.9	5.9	5.9	EPS growth (norm/dil)		nm	0%	204%	19%	52%	
Lease liabilities	0.0	3.5	5.3	5.3	5.3	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Other	1.0	(1.0)	(1.3)	(2.3)	(2.3)	DPS Growth		na	n/a	n/a	n/a	n/a	
Total current liabilities	19.2	13.4	22.7	25.9	28.3	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Long term debt	0.3	0.0	1.3	4.3	2.3	Dividend imputation		30	30	30	30	30	
Other non current liabs	0.9	4.3	6.0	5.9	5.9	PE (x)		nm	22.8	7.5	6.3	4.1	
Total long term liabilities	1.2	4.3	7.2	10.2	8.2	PE market		18	18	18	18	18	
Total Liabilities	20.4	17.7	29.9	36.0	36.4	Premium/discount		nm	26.5%	(58.4%)	(65.2%)	(77.0%)	
Net Assets	12.9	12.7	13.8	15.5	19.3	EV/EBITDA		nm	13.7	5.9	5.1	3.3	
Share capital	13.0	13.0	13.5	13.5	13.5	FCF/Share	cps	nm	(0.003)	(0.015)	(0.040)	0.010	
Accumulated profits/losses	(0.2)	(0.1)	0.5	2.2	5.5	Price/FCF share		nm	(54.2)	(9.1)	(3.5)	14.5	
Reserves	0.3	0.3	0.4	0.4	0.4	Free Cash flow Yield		nm	(1.8%)	(11.0%)	(28.7%)	6.9%	
Minorities	(0.1)	(0.6)	(0.6)	(0.5)	(0.1)								
Total Shareholder funds	12.9	12.7	13.8	15.6	19.3								

Source: RaaS estimates, Company data for actuals

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021



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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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