

This announcement contains inside information

Connect Group PLC
("Connect Group" or "the Group")

TRADING AND STRATEGY UPDATE

1. TRADING UPDATE

Connect Group PLC is today issuing a Trading Update covering the 19 week period to 12 January 2019.

Overview – performance in line with expectations

Overall performance for the 19 weeks to 12 January 2019 is in line with management's expectations. The Group is pleased to report that it is making good early progress with its strategy for a sustainable recovery, based on rebuilding the strengths of its core businesses, underpinned by a disciplined approach to capital management.

Total Group continuing revenue of £516.7m (2018: £538.1m) has decreased by 4.0% year to date. Continuing revenue in Smiths News and DMD was £458.5m (2018: £474.2m) down by 3.3%; revenue in Tuffnells was £58.2m (2018: £63.9m) down by 8.8%.

This performance is in line with our expectations, with the decline in Smiths News and DMD being a consequence of well-established trends in the newspaper and magazine markets. The decline in Tuffnells' revenue arises from the continuation of service performance and trading challenges experienced in the second half of last year, which are being actively addressed.

The Group's organisational restructure has delivered greater focus and accountability in its core businesses. Good progress has also been made in streamlining head office support functions. Overall, costs are therefore in line with management's plan and our performance targets for ongoing service and efficiency improvements remain on track as we prepare the Group for a sustainable recovery.

Smiths News – contract wins secure long-term revenue; cost savings on track

The recently announced contract awards confirm the momentum in our plans to accelerate the publisher contract renewals. Smiths News has now successfully negotiated new 5-year contracts amounting to 38% of its total sales (at current values), amounting to 61% of its magazine revenues and 26% of its newspaper revenues. We are in advanced discussions with the remaining key publishers and are confident of achieving our goal of renegotiating the critical mass of contracts this financial year.

Planned cost savings in Smiths News are on track aided by the return to a more focused management.

Tuffnells – stabilising operations; targeting return to profitability in H2

Tuffnells continues to feel the impact of issues and trading challenges from the second half of FY2018. While revenue is down on the prior year we have made progress in stabilising operations and building improvements to revenue quality, whilst generating momentum in new customer acquisition. The business was cash flow neutral in quarter 1 and, given this underlying progress, we continue to target a return to profitability in H2, while recognising there is inherent uncertainty in forecasting the speed of sustainable progress.

2. STRATEGY

The Group's medium-term strategy is focused on delivering sustainable improvements to the core businesses, underpinned by the introduction of lean process management and continuous improvement principles to drive efficiency savings and improved customer experience.

Good progress has been made with the immediate priorities that were outlined in the Group's preliminary financial results in November 2018 and we are confident of making further improvements over the remainder of the year. In January 2019, in line with our focus on these priorities, Smiths News sold its vended coffee proposition, trading as Jack's Beans, to an industry specialist, thereby removing another non-core distraction.

While our immediate focus is on rebuilding core operations, the Group's strategy recognises a medium term opportunity to offer distribution solutions that leverage our skills and infrastructure in near adjacent markets. These near adjacent propositions will be pursued and evaluated against strict investment criteria that ensure there is limited financial risk or operational distraction.

The Group's strategy will be underpinned by a disciplined approach to capital management that recognises and balances the interests of all our stakeholders.

CAPITAL ALLOCATION

The Group intends to take a more prudent and disciplined approach to capital management. We expect free cash from operations to be sufficient to fund the investment needed for recovery, with the surplus used to reduce net debt while also maintaining an attractive total shareholder return.

Sale and leaseback of selected Tuffnells properties

The Group has today announced proposals for the sale and leaseback of 16 freehold and long-lease properties. The process is expected to raise up to £35m of net proceeds before tax and the Company is currently in the process of inviting bids from interested third parties. The net cash proceeds will be used to reduce the Group's net debt with its banking syndicate.

Assuming satisfactory terms can be reached with a successful third party, the proposals are currently expected to require shareholder approval as a Class 1 transaction pursuant to Listing Rule 10. We will keep shareholders informed via regulatory announcements as matters progress.

Net debt

Net debt at 31 August 2018 was £83.4m, representing a net debt/EBITDA ratio of 1.8x. The Group is targeting a reduced net debt/EBITDA ratio of 1x by FY2021, with repayment achieved through a combination of surplus free cash from operations as well as proceeds from the proposed sale and leaseback of selected freehold and long lease properties.

In the near term, due to the lower EBITDA run rate from FY2018 and continued weak trading in Tuffnells, we anticipate the net debt/EBITDA ratio to peak at 2.0x at the half year, prior to the receipt of proceeds from our sale and leaseback proposals.

Capital expenditure, including remedial expenditure required in the Tuffnells business, is expected to be in the range of 30%-50% of EBITDA, with the application of strict criteria for return on capital employed.

Dividend

While we will not be proposing an interim dividend in H1, the Group anticipates recommending a full year dividend of not less than 1.0p for FY2019, subject to meeting our cash and profit expectations and the continuation of a positive trading outlook. Looking ahead, the Board's medium-term priority is to continue strengthening the balance sheet while maintaining a progressive dividend as a proportion of average free cash flow. In this regard, we will target the payment of a full year dividend in the range of 10%-15% of free cash-flow from operations.

SUMMARY

Overall performance for the 19 weeks to 12 January 2019 is in line with management's expectations. The Group has made good progress with its priorities for FY2019, developing a strategy that is focused on the sustainable recovery of its core businesses, while recognising and preparing for wider opportunities in the medium term. The Group's plans are underpinned by a disciplined approach to capital management, which aims to meet the needs of all stakeholders.

The Group will announce its interim financial results for the six months ending 28 February 2019 on 1 May 2019.

INVESTOR MEETING

The Group will hold a meeting for investors to discuss its recovery strategy and capital allocation approach on 22 January 2019 at the office of Buchanan Communications, 107 Cheapside, London EC2V 6DN. The meeting will commence at 2.00pm and an audio webcast will be available from 5pm today via the following link:

<http://webcasting.buchanan.uk.com/broadcast/5c4585dcb1cda5032284d474>

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About Connect Group

Connect Group PLC is a UK based specialist distributor and a leading provider of distribution solutions in complex and fragmented markets. The Group's networks are focused on serving high drop density early morning deliveries, and the demands of mixed and irregular sized freight.

The Group's core businesses are each leading players in their markets:

Smiths News is the UK's largest newspaper and magazine wholesaling business with an approximate 55 per cent market share. It distributes newspapers and magazines on behalf of the major national and

regional publishers, delivering to approximately 27,000 customers across England and Wales on a daily basis. The speed of turnaround and density of Smiths News' coverage is critical to one of the UK's fastest physical supply chains.

Dawson Media Direct (DMD) supplies newspapers, magazines and inflight entertainment technology, to airlines and travel points in the UK and worldwide. Delivering to strict time windows with security accreditation, DMD serves circa 115 airports in 47 countries.

Tuffnells is a leading distributor of mixed and irregular freight, serving approximately 5,000 small and medium sized enterprises across the UK. Its network of 37 depots collects and delivers mixed parcel freight consignments, specialising in items of irregular dimension and weight ("IDW"), examples of which include bulky furnishings, building materials and automotive parts. With a mix of local and national clients, Tuffnells completes up to 70,000 daily deliveries, offering a range of timed services that are responsive to customer demand.