# PMP FY18 FULL YEAR RESULTS WEBCAST BRIEFING - 30 AUGUST 2018

Good morning everyone and welcome to the PMP Investor Presentation.

I am Kevin Slaven, CEO & Managing Director of PMP and with me is Geoff Stephenson our CFO.

We have released a presentation to the ASX this morning which I will be referring to in this presentation.

Before we run through the pack in detail, I want to make the following 3 key points upfront:

- Firstly, we are moving to a period of sustainability and ultimately growth following the deliberate process of industry consolidation and subsequent period of physical integration;

- Secondly, we have a clear strategy focused on our Top 30 customers, the catalogue sector and a continued, disciplined approach to cost competitiveness. Of particular note is our acquisition of a new 80 page press and planned retirement of older inefficient presses. This will result in a net reduction of between 10 – 15% in our overall capacity and an overall reduction in manufacturing costs;

- Finally, our BaU has stabilised with the disruptive period of integration behind us and the settling of pricing and capacity issues that have long plagued our industry. We are seeing early, encouraging signs of price stabilisation in heatset printing in Australia.

## PAGE 3

Let me now turn to the deck. I'll start at Page 3.

Referring to our key FY18 numbers on this page you can see we have delivered on the revised EBITDA and Net Debt guidance we provided in February.

Whilst Statutory revenue is higher with the full year impact of the merger, on a like-for-like basis revenue has decreased primarily due to the clients lost as a result of the merger, most notably Coles and Pacific Magazines. In addition, revenue has been negatively impacted by the well-publicised reduction in magazine and newspaper volumes.

## PAGE 4

As outlined on Page 4, we recognise that there was significant disruption to productivity and workflow during the integration period – and this in turn impacted negatively on our manufacturing costs. The consolidation of the businesses involved the closure of 3 large scale print manufacturing plants and the retirement and relocation of tens of presses and bindery equipment. This was the largest and most complex integration ever undertaken in our industry's history. It is also important to note that these integration issues are now well behind us and we have a firm control over our cost base with improvements in productivity flowing through.

## PAGE 5

Our go forward strategy as detailed on Pages 5 and 6 is based around the consistency in the retail markets spend on catalogue and our ability to provide a fulsome suite of services from pre-media, print, distribution, digital marketing services and data-based insights.

It is important to note that our strategy is based on retailers proven commitment to the catalogue channel and has been developed following significant engagement with, and input from, our major customers. I have recently been to see many of them and they are certainly committed to catalogues. Put simply, catalogues are extremely effective at driving their sales.

## PAGE 6

The enhancement of data-based insights to our foundation print and distribution offering will open up new revenue opportunities for us. We are well progressed in building solutions that enable both granular measurement and enhanced performance for the catalogue. This coupled with our continued cost focus and efficiencies obtained from the installation of the new press next year and ongoing retirement of older, inefficient capacity will strengthen the quality of our earnings whilst ensuring the supply-demand equilibrium remains intact.

## PAGE 7

Pages 7 & 8 highlight the quality and consistency of our major customers and the strength of our catalogue as a foundation marketing channel. Revenue across our Top 30 customers has grown year-on-year.

## PAGE 8

and catalogue volumes from our Top 20 retail customers has also grown year-on-year with growth expected to continue in fiscal 19.

## PAGE 9

Looking forward as detailed on Page 9, we are confident that the industry has stabilised in terms of major dynamics such as capacity and pricing. I know this is key to many of you. With our continued focus on cost control, and ongoing development of our higher margin data driven digital marketing services, we are moving to a period of sustainability and ultimately, growth. It is also pleasing to note that early indications show our fiscal 19 Q1 print and distribution volumes are in line with expectations.

I will now hand over to Geoff to deal with the detailed financial slides in the deck.

***Geoff Stephenson***

Thanks Kevin and good morning,

## PAGE 10

Page 10 of the deck shows statutory sales grew to $734M which is an increase of 21.9% or $132M as the additional 8 months of IPMG print and marketing services revenues were partially offset by reductions at PMPNZ.

Having said that, sales for the 2 businesses on a like for like full 12-month basis have fallen $108M in fiscal 2018 from $842M to $734M with Print Au heat-set sales down by $86M with $61M from the loss of Coles and Pacific and the balance mostly from lower newspaper and magazine volumes.

## PAGE 11

EBITDA pre sig items on page 11 at $40.6M was within revised market guidance and up 26.0% pcp as higher profits at Print Au and Marketing services offset lower results at PMPNZ while Distribution Aust was flat year-on-year. On a like for like basis however, EBITDA pre sigs was down from last year's $48M.

## PAGE 12

Net cash flow for FY18 on page 12 was negative $12.6M after $35.6M of cash sig items, $9M of capex and negative working capital of $4.9M which includes the payout of $10.2M of fiscal 2017 provisions for post merger onerous leases, redundancies and make good, thus reducing the cash conversion ratio. Trade working capital was favourable mainly due to improved debtors.

## PAGE 13

Page 13 shows Print Australia's EBITDA pre sigs was up $7.4M or 43.6% as higher heatset volumes from an extra 8 months of IPMG trading and post merger savings were mostly offset by the combination of the

- loss of the Coles contract and lower than expected newspaper and magazine volumes,
- lower than expected sell prices/mix and volumes,
- higher direct labour and input costs (eg power).

PMPNZ EBITDA was $1.8M lower as lower print sell prices from contract renegotiations during fiscal 2018 offset tight cost controls and a $0.9M better profit at Gordon & Gotch NZ.

## PAGE 14

Marketing Services benefited from the extra 8 months trading and lower cost at PMP Digital. In addition, Gordon & Gotch Australia was up 20% pcp as favourable price increases were realised and strong cost controls offset impact from lower magazine distribution volumes. Letterbox distribution volumes were up 0.8% pcp vs a small industry decline with EBITDA pre sigs flat year-on-year.

## PAGE 15

Page 15 shows that despite making revised EBITDA pre sigs guidance of $40.6M, EBIT pre sigs was $9.4M and after $44.9M of post tax sig items a statutory loss of $43.8M was recorded.

## PAGE 17

Cash flow from operations on page 17 was negative $6.1M which is $6.4M better year-on-year as higher EBITDA and lower sig items offset the unfavourable working capital movement which was mainly impacted by the payment of $10.2M of fiscal 17 provisions for redundancies, make good and onerous leases, without which the net movement in working capital would have been favourable $5.3M rather than negative $4.9M.

## PAGE 18

Moving to page 18, this shows that with the negative net cash flow net debt increased this year from $18.5M to $32.8M with net debt/EBITDA now at 0.8x. Cash conversion at 72.6% was adversely impacted by the $10.2M payout of the 2017 provisions without which it would have been 97%. A favourable outcome was recorded for debtor days down from 34 to 29.

## PAGE 19

Early indications are that net debt at June 2019 is expected to be broadly flat year-on-year as lower spend on sig items and capex results in net cash flow at or about nil.

We continue to maintain a disciplined approach to capex and plan to retain a conservative balance sheet and I'll now hand back to Kevin.

***Kevin Slaven***

Thanks Geoff.

In conclusion I want to reiterate that after the disruptive period associated with industry consolidation and the physical integration of the businesses, we have now moved into a new phase in our evolution of sustainability and growth. We are not a business in terminal decline, quite the opposite. We have a positive, profitable and sustainable future.

We have great confidence in our catalogues as a marketing channel and our strength in being able to serve this sector, not only in our foundation capabilities of pre-media, print and distribution, but also in our ability to grow new revenue streams through our data insights to deliver more tailored and effective marketing campaigns.

Geoff and I will now take any questions that you may have.