Ovato Limited
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# ASX ANNOUNCEMENT

26 February 2019

## OVATO LIMITED FY19 HALF YEAR RESULTS

| $M | H1 FY19 | H1 FY18 | Var $ | % |
|---|---|---|---|---|
| Sales Revenue | 363.0 | 399.9 | (37.0) | (9.2%) |
| EBITDA (before significant items) | 18.6 | 20.2 | (1.6) | (7.7%) |
| EBIT (before significant items) | 3.9 | 4.9 | (1.0) | - |
| Net Profit (before significant items) | 0.1 | 1.1 | (1.1) | - |
| (Loss) before Income Tax Expense | (7.6) | (13.8) | 6.1 | 44.5% |
| Net (Loss) (after significant items) | (10.9) | (19.5) | 8.7 | - |
| Net Cash Flow [1] | (8.6) | (13.9) | 5.3 | 38.3% |
| Net Debt | (41.4) | (32.8) | (8.7) | - |

[1] Net Cash Flow equals Cash Flow from Operations less Investing Cash Flows
* Before significant items

- FY19 Half Year EBITDA* of $18.6M in line with forecast (down 7.7% pcp on 9.2% lower revenue)
- Ovato Print Aust EBITDA* of $13.2M up 38.7% with EBITDA*/Sales ratio up from 3.9% to 6.2%
- Full year EBITDA* expected to be at or around the low end of guidance - $37M - $40M
- NSW print sites consolidating
- Lower Ovato NZ EBITDA (down $4.1M/54%) and Ovato Residential Distribution (down $1.3M/50%), proactive approach to address industry issues
- Previously disclosed medium-term targets affirmed

## CEO COMMENTARY

Ovato CEO & Managing Director Kevin Slaven highlighted, "It is encouraging to see that our margin improvement strategies, initially focussed at Ovato Print Australia, are having a positive impact. Today we announce the next stage of our business transformation with the consolidation of our NSW capabilities under one roof at Australia's largest heat-set printing plant at Warwick Farm. While we recognise there are still challenges ahead to improve returns across the group, we continue to make steady progress and our ongoing initiatives allow us to affirm our medium-term targets".

"At Ovato Print Australia we are executing our plan to reduce our manufacturing cost base to improve our profitability. To date our plan has delivered a 38.7% EBITDA* improvement in our largest business, with EBITDA* margins having increased from 3.9% to 6.2%. While Tier 1 catalogue volumes were stable in the period and average print selling prices continued to stabilise, revenue was expectantly lower as a result of magazines and real estate dependent publications, and the impact of subdued consumer confidence affecting retail market conditions".

"Ovato Retail Distribution (formerly G&G Australia) also delivered a pleasing improvement in profitability. Lower magazine volumes distributed were offset by an increase in the average sell price, additional cost savings and revenue from new product streams utilising the existing delivery platform to Newsagents.

Significant advancements have also been made in the development of our new Advertising Production System and data related products which will provide further new revenue opportunities as we move into FY20".

"Challenges in maintaining a sustainable delivery network within Ovato Residential Australia (formerly Letterbox Distribution) are being addressed by management in consultation with relevant industry associations and major retailers. We are committed through this process to enhancing our distribution network in order to develop solutions for our distribution customers and to finding an appropriate, sustainable solution for the industry. Profitability fell 50% pcp on reduced volumes from lost customers and continued competitive market pricing".

"Overcapacity in the New Zealand print market has led to intense pricing pressure as contracts have come up for renewal. While we were pleased to see print volumes year on year remain fairly stable, this was outweighed by significantly lower sell prices on contract tenders and higher input prices not fully recouped in a very competitive market. As a result of these factors, profitability fell at Ovato New Zealand by 54% pcp. As market leader we are taking a proactive approach to addressing the overcapacity issue".

## NSW SITE CONSOLIDATION

"We have further analysed our future capacity requirements and have determined that we are able to house all required equipment at one plant in NSW. Over the balance of the 2019 calendar year we will relocate the best of our equipment and personnel from Moorebank to consolidate our NSW print operations at Warwick Farm, Ovato's largest and most modern print facility.

The consolidation of the NSW operations under one roof combined with the installation of the new 80-page press will result in substantially lower manufacturing costs and will further contribute to reducing excess capacity in the market. Warwick Farm will further enhance its reputation as being the "Super Site" for heat-set printing in Australia and being co-located with letterbox distribution services further enhances the efficiencies for our customers who combine their print and distribution with us.

The consolidation of NSW print sites at a cost of a further $30M over the next 18 months (primarily on redundancies, site works, press relocations & make good) will allow additional annualised savings of $19M by FY21. When combined with the purchase and installation of the new press (announced in August 2018 with a spend of $20M and $5M of annualised savings), the payback period for the overall spend of $50M will now be circa 2 years.

A non-cash impairment of equipment of circa $12M will be booked in H2 of FY19".

## OUTLOOK

"We take a cautious stance on the next six month's macro outlook with potential disruptions from upcoming Federal and NSW State elections and expected continued weakness in real estate markets and consumer confidence. This outlook is reflected in a reduction in H2 forward bookings for newspapers, magazines and non-food & beverage catalogue customers. The outlook for Tier 1 food and beverage catalogues remains in line with previous expectations. We will continue to execute our margin improvement strategies and control costs to mitigate the effect of the weaker market conditions.

EBITDA* guidance for fiscal 2019 announced in November 2018 was $37M - $40M. Following the first half results and taking into account our macro outlook, we expect full year EBITDA* to be at or around the low end of the range.

Net debt at June 2019 is expected to be in the range of $45M - $50M (vs earlier guidance of $40M-$45M)".

We affirm our previously disclosed medium-term targets of progressively increasing EBITDA margin to above 7.5% by the end of FY21, achieving revenue growth through higher margin pre-media and marketing services, applying disciplined capital allocation with maintenance capex to remain at c$5M-8M p.a., and ensuring significant items become a declining feature of the Ovato financial results and to stabilise at c$5-$10M pa".

## H1 FY19 RESULTS COMMENTARY

| Net Sales Revenue ($M) | 1H FY19 | 1H FY18[1] | Var $ | Var % |
|---|---|---|---|---|
| Ovato Print Group Australia | 213.0 | 244.7 | (31.7) | (12.9%) |
| Ovato Residential Distribution Aust | 43.1 | 46.2 | (3.1) | (6.7%) |
| Ovato Marketing Services Aust | 44.3 | 44.7 | (0.4) | (0.8%) |
| Ovato New Zealand | 62.6 | 64.4 | (1.8) | (2.8%) |
| TOTAL GROUP | 363.0 | 399.9 | (37.0) | (9.2%) |

1. Revenue comparatives for H1 FY18 have been restated to reflect changes arising from the adoption of AASB15 Revenue from contracts with customers.

H1 Group Sales down $37M to $363.0M primarily due to $31.7M lower sales mainly at Ovato Print Australia.

| EBITDA[1] ($M) | 1H FY19 | 1H FY18[2] | Var $ | Var % |
|---|---|---|---|---|
| Ovato Print Group Australia | 13.2 | 9.5 | 3.7 | 38.7% |
| Ovato Residential Distribution Aust | 1.3 | 2.6 | (1.3) | (50.2%) |
| Ovato Marketing Services Aust | 4.3 | 2.9 | 1.3 | 45.6% |
| Ovato New Zealand | 3.5 | 7.6 | (4.1) | (53.6%) |
| Corporate | (3.6) | (2.4) | (1.2) | (49.9%) |
| TOTAL GROUP | 18.6 | 20.2 | (1.6) | (7.7%) |

1. Before significant items
2. EBITDA comparatives have been adjusted to reflect changes between the Ovato Marketing Services Australia and Corporate segments.

H1 EBITDA (before significant items) at $18.6M was in line with forecast and $1.6M or 7.7% lower compared to $20.2M pcp.

**Ovato Print Australia** (previously Print Australia)

- Revenues at $213.0M were 13% or $31.7M lower mainly from $6M of Catalogue work lost due to the sale of one of our customers and $6M of lost Magazine contracts. We saw a decline in Catalogue revenue from customers who closed their businesses, this was $2M against pcp. There was $13M of lower magazine and newspaper volumes from existing customers due to the weaker real estate market and reduced advertising pages. Importantly Tier 1 existing customer catalogue volumes and sell prices have remained stable pcp. Ovato Book Printing (previously Griffin Press) revenue was $0.6M or 3.8% higher.
- EBITDA (before significant items) at $13.2M was up $3.7M or 38.7%. Heatset profit was up $3.0M pcp as operational savings around labour costs, ink and R&M and lower headcount more than offset the impact from lower sales volumes and higher paper prices not fully recouped. EBITDA*/sales ratio up from 3.9% to 6.2%. Ovato Book Printing EBITDA (before significant items) was up $0.7M pcp as volumes held and higher sell prices and lower costs more than offset higher paper prices.

**Ovato Residential Distribution** (formerly Distribution Australia)

- Revenues at $43.1M were 6.7% or $3.1M lower mainly due to lower volumes from existing customers. Unaddressed volumes in H1 FY19 were 3.1% lower pcp vs industry lower by 7.5%. Newspaper related volumes were 7% lower.
- EBITDA (before significant items) at $1.3M was 50.2% or $1.3M lower pcp as lower volumes from existing customers and unfavourable price/mix in a competitive pricing environment offset operational savings.

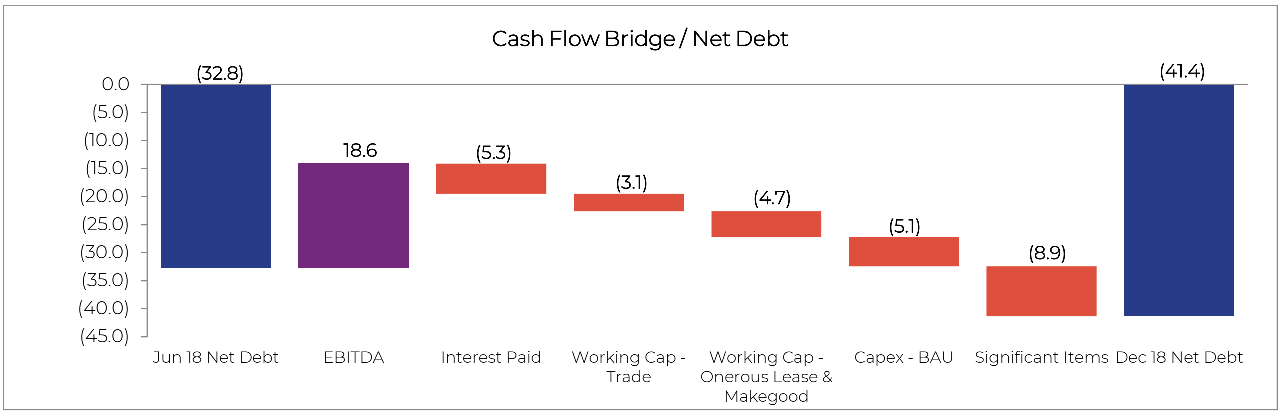
**Ovato Marketing Services** (including Ovato Retail Distribution formerly Gordon & Gotch Australia)

- Revenues at $44.3M were down by $0.4M or 0.8% pcp mainly due to lower sales from Ovato Retail Distribution down $0.6M with volumes down 8% pcp largely offset by favourable sell prices.

- EBITDA (before significant items) at $4.3M was $1.3M or 45.6% higher pcp mainly due to an improved outcome at Ovato Retail Distribution EBITDA (before significant items) as favourable price/mix and lower operational and administration costs offset the impact from lower volumes (down 8.0%).

**Ovato New Zealand** (formerly PMP NZ)
- Revenues at $62.6M were down $1.8M or 2.8% pcp due mainly to lower heatset sell prices and magazine distribution print revenues. Sheetfed and Distribution sales were broadly in line year on year.
- Ovato New Zealand EBITDA (before significant items) of $3.5M, was down $4.1M or 53.6% pcp. The non-print and sheetfed print businesses were broadly flat pcp with the reduction in NZ profitability largely due to performance of the heatset print business. While print volumes were flat YOY several major print contracts were re-signed with sell price reductions due to aggressive competition. In addition higher paper prices were not fully recouped.

H1 FY19 statutory loss after tax was $10.9M vs $19.5M loss in H1FY18 down $8.7M pcp as $7.1M lower significant items and $2.6M reduced income tax expense was partially offset by $1.0M lower EBIT.




Net cash flow in H1FY19 at ($8.6M) was better by $5.3M pcp as $7.9M lower cash significant items and favourable working capital movements pcp were offset by lower EBITDA, higher interest paid and higher capital expenditure. With gearing at 1.1x net debt to EBITDA (before significant items) our balance sheet remains strong. Net debt at December 2018 of $41.4M is in line with market guidance.

## SIGNIFICANT ITEMS

Significant items booked in H1 FY19 were $8.0M down 47.0% vs $15.0M pcp. There was $5.8M for restructuring (mainly labour related costs), press relocations $0.7M and new onerous leases $1.0M. Non-cash significant items were a $1.5M gain from revaluation of prior plant and equipment impairments. Onerous lease provisions will be paid between FY19-FY24.

## DEBT

The company has a Net Debt position at December 2018 of $41.4M which is in line with FY19 market guidance and $8.7M higher than December 2017. We have extended our existing ANZ $40M facility to February 2020 and completed a $40M bond refinancing. Net debt/EBITDA (before significant items) is 1.1x at December 2018 vs 0.8x last year.

## FOR FURTHER INFORMATION CONTACT:

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NB : As part of the continuing adoption of AASB15 some minor revenue reclassifications have occurred on prior year numbers e.g. paper waste recoveries previously treated as a reduction in paper costs are now included as other revenue in H1 FY19 so H1 FY18 has been restated to give proper comparatives. See Appendix 4D for further details.