# OVATO LIMITED
# INVESTOR PRESENTATION

## RESULTS FOR THE 6 MONTHS ENDED 31 DECEMBER 2018

26 February 2019

2019 HALF YEAR RESULTS

# FINANCIAL OVERVIEW

**Sales at $363.0M**

- On Forecast - a 9.2% decrease to pcp
  - Primarily driven by a $31.7M decrease in Ovato Print Group Australia revenue

**EBITDA[1] at $18.6M**

- On Forecast - a 7.7% decrease to pcp on lower sales
  - Ovato Print Group Australia EBITDA[1] / Sales ratio 6.2% vs 3.9% pcp
  - Group EBITDA[1] / Sales ratio 5.1% vs 5.0% pcp impacted by reduced NZ and Residential Distribution profit pcp

**Net Debt at $41.4M**

- On Forecast
  - In line with November 2018 guidance

**Net Loss at ($10.9M)**

- On Forecast and $8.7M better pcp, largely due to lower significant items ($8.0M vs $15.0M pcp)

1. Before significant items

# KEY FIRST HALF ACHIEVEMENTS

- Improved Ovato Print Group Australia performance in light of falling revenues and less significant items:
  - EBITDA[1]/Sales Margin increase from 3.9% to 6.2% pcp.
  - Average print selling price per tonne has stabilised pcp
- Retail Distribution improved earnings against declining volumes and improved cash year on year.
- Book Printing revenue & profit improvement pcp and re-signing of Penguin Random House for 4 years.
- Significant cultural shift from the “old” PMP – repositioning and rebranding of the company to Ovato

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1. Before significant items

# OPERATIONAL PRIORITIES

**NZ** profitability has been challenged with a 53.6% reduction to pcp:

- Print volumes have remained relatively stable
- Over capacity has lead to intense price competition with contracts having to be renewed at significantly lower prices
- Proactively exploring market rationalisation/consolidation options to bring supply and demand into equilibrium and allow pricing to stabilise

**Residential Distribution** profitability has been challenged with a 50.2% reduction to pcp:

- Distribution volumes have remained relatively stable, although loss of a major customer will further impact in H2
- Challenges in maintaining a sustainable delivery network are being addressed through relevant industry associations and in consultation with major retailers

# RESPONSES TO CURRENT CHALLENGES

- Rebranding and repositioning the Company for innovation and growth
- Continuing to manage cost base and keeping supply and demand in equilibrium through the consolidation of our two NSW sites
  - Total cash spend $50M FY19-FY21 (vs $20M announced August 2018)
  - Total annualised savings $24M (vs $5M announced August 2018)
  - The new spend is for redundancies, site works, make good and press relocations
  - Overall payback circa 2 yrs (vs 4 yrs)
- Investment in data and new technology with development of three prototype products in market
- Proactively taking market lead in working to find industry solutions for NZ and Residential Distribution

# MEDIUM TERM TARGETS AFFIRMED

- Ovato Australia heatset print pricing expected to stabilise at around current levels with some modest increases in SPPT as contracts are renewed
- Ovato Australia catalogue print and distribution volumes are forecast to continue to be reflective of the industry and to reduce by 2% to 3% p.a. and the rate of decline in publishing volume to stabilise with reductions of 5% to 10% p.a.
- Ovato Group EBITDA (before significant items) to progressively increase each year from the FY19 guidance range level with the roll-out of key strategic initiatives identified to further reduce the operational infrastructure costs of the manufacturing footprint – with a target for EBITDA margin increasing to above 7.5% by the end of FY21.
- Additional revenue and EBITDA to be achieved from growth in custom magazine publishing and higher margin pre-media and marketing services. These are included in the volume and EBITDA margin assumptions above.
- Disciplined capital allocation with maintenance capex to remain at c$5-8M p.a.
- Ovato's significant items to be a declining feature of the Ovato financial results and to stabilise at c$5-$10M p.a.

# OPERATIONS SUMMARY



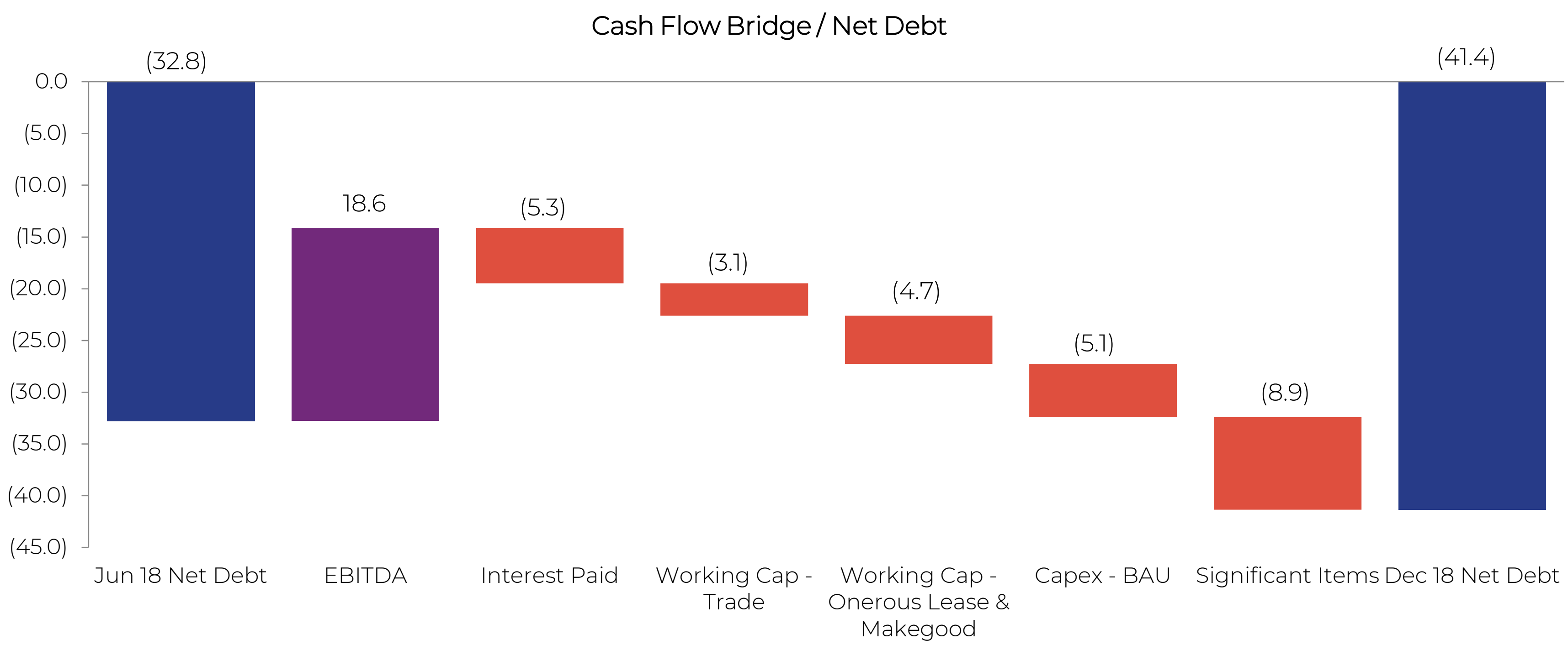
| NET SALES REVENUE ($M) | 1H FY19 | 1H FY18[2] | VAR $ | VAR % |
|---|---|---|---|---|
| Ovato Print Group Australia | 213.0 | 244.7 | (31.7) | (12.9%) |
| Ovato Residential Distribution Australia | 43.1 | 46.2 | (3.1) | (6.7%) |
| Ovato Marketing Services Australia | 44.3 | 44.7 | (0.4) | (0.8%) |
| Ovato New Zealand | 62.6 | 64.4 | (1.8) | (2.8%) |
| TOTAL GROUP | 363.0 | 399.9 | (37.0) | (9.2%) |

| EBITDA[1] ($M) | 1H FY19 | 1H FY18[3] | VAR $ | VAR % |
|---|---|---|---|---|
| Ovato Print Group Australia | 13.2 | 9.5 | 3.7 | 38.7% |
| Ovato Residential Distribution Australia | 1.3 | 2.6 | (1.3) | (50.2%) |
| Ovato Marketing Services Australia | 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. Revenue comparatives for 1HFY18 have been restated to reflect changes arising from the adoption of AASB15 Revenue from contracts with customers
3. EBIDTA comparatives have been adjusted to reflect changes between the Ovato Marketing Services Australia and Corporate segments

# CASH FLOW BRIDGE






NB. Working Capital includes $4.7M onerous lease and make good payments from provisions raised in June 2017 that were paid during H1 FY19. Underlying trade working capital movement is negative $3.1M

# BUSINESS UNIT SUMMARY

Ovato Print Australia statutory revenue at $213.0M is down by ($31.7M) or (12.9%) :

- EBITDA[1] $13.2M up $3.7M or 38.7% pcp
- operational savings labour costs, ink, R&M & lower headcount offset impact of lower volumes and paper prices not fully recouped

Ovato Residential Distribution Australia revenue $43.1M down ($3.1M) / (6.7%) pcp

- volumes down (3.3%) from existing customers vs industry down (7.5%)
- EBITDA[1] at $1.3M down by ($1.3M) pcp
  - lower volumes existing customers and lower price/mix in competitive market offset operational savings

1. Before significant items

# BUSINESS UNIT SUMMARY

Ovato Marketing Services Australia revenue $44.3M down ($0.4M) or (0.8%) pcp

- Consists of Ovato Marketing Services and Ovato Retail Distribution Australia
- EBITDA[1] at $4.3M up from $2.9M pcp :
  - Ovato Retail Distribution up $1.6M pcp as favourable price/mix and lower costs offset lower volumes

Ovato New Zealand revenue $62.6M down ($1.8M) or (2.8%):

- Heatset volumes flat only down (0.4%) pcp
- EBITDA[1] at $3.5M is ($4.1M) lower pcp
  - Non-Heatset businesses in line pcp
  - Reduction all at Heatset print :
    - volumes held
    - major contract renewals at lower sell prices in very competitive market
    - higher paper prices not fully recouped

1. Before significant items

# INCOME STATEMENT



| $M | 1H FY19 | 1H FY18 | % |
|---|---|---|---|
| Sales Revenue | 363.0 | 399.9 | (9.2%) |
| EBITDA (before significant items) | 18.6 | 20.2 | (7.7%) |
| Depreciation & Amortisation | (14.7) | (15.3) | 3.8% |
| EBIT (before significant items) | 3.9 | 4.9 | (20.0%) |
| Net Profit After Tax (before significant items) | 0.1 | 1.1 | - |
| Significant items post tax | (10.9) | (20.7) | 47.2% |
| Net (Loss) before tax | (7.6) | (13.8) | 44.5% |
| Net (Loss) (after significant items) | (10.9) | (19.5) | 44.4% |

# KEY METRICS



| KEY METRICS | 1H FY19 | 1H FY18 |
|---|---|---|
| Cash Flow from Operating Activities ($M) | **(3.5)** | (12.9) |
| Net Cash Flow ($M) | **(8.6)** | (13.9) |
| Net Debt ($M) | **(41.4)** | (32.8) |
| EBITDA[1] to Sales Revenue (%) | **5.1%** | 5.0% |

1. Before significant items

# RECONCILIATION OF CASH FLOW



| $M | 1H FY19 | 1H FY18 | Var $ |
|---|---|---|---|
| EBITDA (Before significant items) | 18.6 | 20.2 | (1.6) |
| Borrowing costs | (5.3) | (2.9) | (2.4) |
| Movement in trade working capital | (3.1) | (6.8) | 3.6 |
| Working Capital - onerous lease and makegood provisions payments | (4.7) | (6.6) | 2.0 |
| Trading Cash flow | 5.5 | 3.9 | 1.6 |
| Significant items | (8.5) | (16.8) | 8.3 |
| Significant items - Bond break fee | (0.4) | 0.0 | (0.4) |
| Cash Flow from Operations (Appendix 4D) | (3.5) | (12.9) | 9.5 |
| Asset sales | 0.0 | 2.2 | (2.2) |
| Capital Expenditure | (5.1) | (3.2) | (1.9) |
| Net Cash Flow | (8.6) | (13.9) | 5.3 |
| Other | (0.5) | 0.0 | (0.5) |
| Gain/(Loss) on translation of Foreign Debt / Cash | 0.5 | (0.3) | 0.8 |
| Reconciliation to Net Debt movement | (8.6) | (14.2) | 5.6 |

# BALANCE SHEET METRICS

| | DEC-18 | DEC-17 |
|---|---|---|
| Total Assets ($M) | 501.2 | 541.0 |
| **Shareholders Funds ($M)** | **199.8** | **233.8** |
| **Net Debt ($M)** | **41.4** | **32.8** |
| Interest Cover (EBITDA/Interest) times | 5.2 | 5.6 |
| **Net Debt to EBITDA[1] (times)** | **1.1** | **0.8** |
| **Net Debt to Equity (%)** | **20.7%** | **14.0%** |
| Net Tangible Assets per share (cps) | 0.31 | 0.38 |
| Trade Working Capital ($M) | 49.8 | 58.4 |
| Debtor Days | 32.6 | 36.0 |
| Cash Conversion (%) [2] | 29.5% | 19.4% |
| Return on Funds Employed (%) [3] | 3.30% | 4.03% |

1. Before significant items. Uses a rolling 12 month EBITDA.
2. Cash Conversion is calculated as Cash Flow from operations (adjusted for significant items) / EBITDA before significant items. Includes impact of payments on onerous leases and make good. Full year cash conversion is expected to be circa 60%-65%
3. ROFE equals 12 months rolling EBIT (before significant items) / Average funds employed.

# DEBT PROFILE

- Net Debt December 2018 is $41.4M :
  - vs $32.8M Net Debt at December 2017
  - Net Debt / EBITDA[1] 1.1x vs 0.8x at December 2017
- Extended ANZ $40M facility to February 2020 :
- Bond refinance completed November 2018
  - Secured bond at 8.25% coupon
  - 4 year term

1. Before significant items

# OUTLOOK

- Cautious stance for the next 6 months – macro outlook
- Continue to execute margin improvement strategies and control costs
- FY19 EBITDA[1] guidance $37M-$40M – expect to be at or around low end of guidance
- Net Debt June 2019 to be $45M - $50M vs previous guidance of $40M - $45M

1. Before significant items

# FY19 HALF YEAR RESULTS ADDENDUM

# UNITS

| | 1H FY19 | 1H FY18 | VAR % |
|---|---|---|---|
| Ovato Print AU | 122.9 | 140.3 | (12.4%) |
| Ovata Print NZ | 19.3 | 19.4 | (0.4%) |
| **Ovato Print Tonnes ('000)** | **142.2** | **159.7** | **(11.0%)** |
| | | | |
| Ovato Residential Distribution AU | 1,100.3 | 1,137.4 | (3.3%) |
| Ovato Residential Distribution NZ | 333.3 | 331.1 | 0.7% |
| **Residential Distribution Units (Mio)** | **1,433.6** | **1,468.5** | **(2.4%)** |
| | | | |
| Ovato Retail Distribution AU | 89.4 | 96.8 | (7.6%) |
| Ovato Retail Distribution NZ | 18.1 | 18.7 | (3.2%) |
| **Retail Distribution Copies (Mio)** | **107.6** | **115.6** | **(6.9%)** |

# SIGNIFICANT ITEMS



| $M | 1H FY19 | 1H FY18 | VAR % |
|---|---|---|---|
| Redundancy costs & other costs | 7.9 | 13.3 | 40.7% |
| Press relocation costs | 0.7 | 3.5 | 81.5% |
| Bond break fee | 0.4 | 0.0 | - |
| **Sub Total** | **8.9** | **16.8** | **46.9%** |
| Gain on sale of PP&E | 0.0 | (2.2) | - |
| **Total Cash** | **8.9** | **14.6** | **38.7%** |
| Loss on sale of PP&E (non-cash) | 0.3 | 0.0 | - |
| Impairments (non-cash) | (1.3) | 0.4 | - |
| **Total Significant items** | **8.0** | **15.0** | **47.0%** |

# RECONCILIATION OF EBITDA

| $M | 1H FY19 | 1H FY18 |
|---|---|---|
| Statutory (Loss) | (10.9) | (19.5) |
| Income tax (expense) | (3.2) | (5.8) |
| Statutory (Loss) before Income tax | (7.6) | (13.8) |
| Significant Items (before tax) | 8.0 | 15.0 |
| Profit (before significant items) | 0.3 | 1.3 |
| Net finance costs | 3.6 | 3.6 |
| EBIT (before significant items) | 3.9 | 4.9 |
| Depreciation & Amortisation | 14.7 | 15.3 |
| EBITDA (before significant items) | 18.6 | 20.2 |

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The material in this presentation is a summary of the results of Ovato Limited (OVT) for the half year ended 31 December 2018 and an update on Ovato's activities and is current at the date of preparation, 26 February 2019. Further details are provided in the Company's half year accounts and results announcement released on 26 February 2019.

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