Ovato Limited
ABN 39 050 148 644

ASX ANNOUNCEMENT

30 August 2019

OVATO LIMITED FY19 FULL YEAR RESULTS

$M	FY19	FY18	Var $	Var %
Sales Revenue - Statutory	669.2	734.0	(64.7)	(8.8%)
EBITDA (before significant items)	30.8	40.6	(9.8)	(24.1%)
EBIT (before significant items)	2.2	9.4	(7.1)	(76.3%)
Net (Loss)/Profit (before significant items)	(4.4)	1.1	(5.5)	-
Significant Items (post tax)	(79.9)	(44.9)	(34.9)	-
Net (Loss) (after significant items)	(84.3)	(43.8)	(40.5)	-
Net Cash Flow[1]	(12.4)	(12.6)	0.1	1.0%
Net Debt	(44.7)	(32.8)	(11.9)	-

1 Net Cash Flow equals Net Cash Flow from Operations less Investing Cash Flows and proceeds from share issue

- FY19 Full Year EBITDA* of $30.8M (down 24.1% pcp on 8.8% lower revenue)
- Group EBITDA*/sales ratio down from 5.5% to 4.6%
- Ovato Aust EBITDA* of $26.3M down $3.7M with EBITDA*/Sales ratio from 4.9% to 4.7%
- Ovato NZ EBITDA* of $4.6M down 57% with EBITDA*/sales ratio from 8.8% to 4.0%
- NSW print sites consolidation on track for completion by November 2019
- Net debt $44.7M after $15.1M net equity issue proceeds in May-June 2019

* Before significant items

CEO Commentary

Overview

FY19 was a challenging year with reduced revenues leading to a reduction in profitability. We have reacted with the continuation of our strong cost focus through the consolidation of manufacturing sites in NSW as well as evolving new products and services through our Marketing Services offering. We remain committed to our strategy aligned to client focus and operational efficiency.

It is encouraging to see that our margin improvement strategies, initially focused at the Australian business, are having a positive impact with Ovato Australia's EBITDA*/sales margin holding relatively steady against the prior period at 4.7% as cost savings largely offset lower sales. The Group EBITDA* ratio though has fallen from 5.5% to 4.6% mainly due to the disappointing EBITDA* result at Ovato NZ down 57% on lower print sell prices.

We remain committed to the continual evaluation of the most effective and efficient footprint for our manufacturing operations. As part of these efforts, we announced earlier this year the closure of the Moorebank site and consolidation of Print and Distribution capabilities into our super-site at Warwick Farm. This project is on schedule and will deliver a significant reduction in our underlying manufacturing cost base. As previously advised, annualised savings of $24M will be generated by FY21 from the NSW site consolidation. Total cash cost associated with this project in FY20 is expected to be circa $35M.

Outlook

We take a cautious stance on the short-term macro outlook with expected continued soft retail conditions and lower consumer confidence. 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 current market conditions.

The Group EBITDA*/Sales ratio is expected to improve over the medium term as the major savings flow through from NSW site consolidation into Ovato Australia and NZ margins stabilise.

H1 of FY20 will see the completion of the disruption and negative cash flow associated with the NSW site consolidation with the benefits of this project flowing through into H2FY20 and beyond. We remain confident of improved profit margins and positive cash flows as we move towards FY21 through a lower manufacturing cost base and higher margin revenues in our evolving marketing services products to offset the continued reduction in publishing print revenues.

Net debt will increase in FY20 as the new press is paid for from the Commerzbank loan and NSW site consolidation spend is completed, with cash flow expected to return to positive territory as we head towards FY21 with the major restructuring costs behind us and maintenance capital expenditure to remain at circa $5M pa.

FY19 Results Commentary

Sales Revenue ($M) - Statutory	FY19	FY18	Var $	Var %
Ovato Australia Group	554.9	613.9	(59.0)	(9.6%)
Ovato New Zealand Group	114.3	120.1	(5.8)	(4.8%)
Total Group	**669.2**	**734.0**	**(64.7)**	**(8.8%)**

Ovato has combined Print Group, Residential and Retail Distribution, Marketing Services and Corporate into a new segment called Ovato Australia Group.

EBITDA* ($M)	FY19	FY18	Var $	Var %
Ovato Australia Group	26.3	30.0	(3.7)	(12.5%)
Ovato New Zealand Group	4.6	10.6	(6.0)	(57.0%)
Total Group	**30.8**	**40.6**	**(9.8)**	**(24.1%)**

Group Sales at $669.2M were down $64.7M primarily due to $59M lower sales from Ovato Australia. EBITDA* at $30.8M, while in line with guidance, was down 24.1% pcp mostly due to lower earnings from Ovato NZ.

* Before significant items

Ovato Australia Group

EBITDA* for Ovato Australia at $26.3M was down 12.5% or $3.7M pcp with the advancements in marketing services profitability and the impact of the reducing cost base being offset by reduced print and distribution revenues and the inefficiencies associated with the disruption surrounding the NSW site consolidation project.

Despite these challenges, EBITDA*/sales ratio remained relatively stable against FY18 at 4.7%. This margin is expected to improve with the ongoing revenue and cost initiatives being implemented throughout FY20.

Tier 1 retailer catalogue volumes (particularly food & beverage) have remained consistent with FY18. This has been offset by a general weakness in the non-grocery retail sector market with Tier 2-3 print & distribution revenues reducing.

Subdued consumer confidence saw a continuation of soft retail conditions where the volumes of magazines and real estate dependent publications fell further than that anticipated when the half year results were announced in February. Year-on-year Australian newspaper and magazine print revenues are down 35% and 16% respectively.

Ovato Retail Distribution (formerly Gordon & Gotch Australia) mitigated lower magazine volumes delivered through an increase in the average sell price & additional revenues from new product streams utilising the existing delivery platform to Newsagents. We continue to work closely with Publishers to create operational efficiencies in the distribution network that can deliver financial benefits for all parties.

Residential Distribution sales were lower against FY18 as a result of the loss of a major customer during FY19 and continued competitive market pricing offsetting contract wins. We remain committed to enhancing our distribution network in order to develop solutions for both our print and distribution customers and to finding an appropriate, sustainable solution for the industry.

Ovato Marketing Services revenues and profitability continue to increase as momentum builds through our focus on innovation and data.

Ovato New Zealand Group

EBITDA* at $4.6M down $6M or 57% mostly due to lower print sell prices.

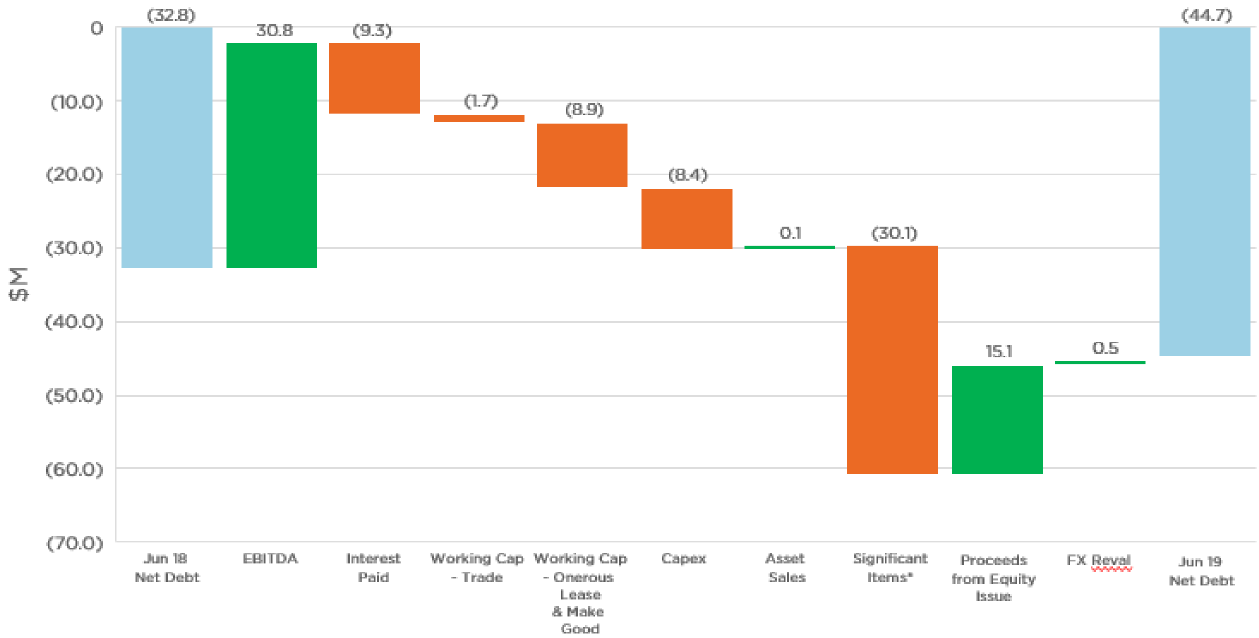
New Zealand continues to be impacted by overcapacity in the heat set printing market and fierce competition for residential distribution volumes to support two separate delivery networks resulting in continued intense pricing pressure leading to lower revenues and reduced margins.

We continue to take a market leadership position in proactively seeking an industry led solution to the current market dynamics.

* Before significant items

Other

Full year FY19 statutory loss after tax was $84.3M vs $43.8M loss in FY18 up $40.5M pcp mostly due to $34.9M higher significant items after tax (due to higher non-cash impairments) and $7.1M lower EBIT.



Net cash flow in FY19 at ($12.4M) was better by $0.1M pcp as $5.5M lower cash significant items and $15.1M equity proceeds net of fees were offset by lower EBITDA, higher interest paid and unfavourable working capital movements. Net debt to EBITDA (before significant items) was up from 0.8x to 1.4x. Net debt at June 2019 of $44.7M is in line with revised market guidance.

Significant Items

Significant items booked in FY19 were $79.9M after tax up $34.9M pcp. Cash significant items at $30.1M were $5.5M lower in FY19 with $30.1M for restructuring and press relocations/other. Non-cash significant items at $49.8M were up year on year as outlined Note 2(b) of Appendix 4E.

Debt

The company has a Net Debt position at June 2019 of $44.7M which is in line with FY19 market guidance and $11.9M higher than June 2018. Net debt/EBITDA (before significant items) is 1.4x at June 2019 vs 0.8x last year. A Commerzbank loan has been arranged to fund the new 80-page press to be drawn down in FY20.

The company's receivables financing facility matures on 28th February 2020. The company is currently well advanced in negotiations on refinancing this facility with a new lender with a longer maturity profile and additional flexibility on funding. Subsequent to year end, ANZ has increased the overdraft facilities from September 2019.

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