

ASX ANNOUNCEMENT

28 August 2020

OVATO LIMITED FY20 FULL YEAR RESULTS

Key Financials Full Year FY20

\$m	FY20 (statutory)	FY20 (preAASB16) ¹	FY19 (statutory/ pre AASB16)	Var \$ (preAASB16)	Var % (preAASB16)
Sales Revenue	539.3	539.3	669.2	(130.0)	(19.4%)
EBITDA (before significant items) ²	32.4	9.2	30.8	(21.6)	(70.0%)
EBIT (before significant items)	(4.5)	(11.9)	2.2	(14.1)	-
Net (Loss) (after tax before significant items)	(16.7)	(15.0)	(4.4)	(10.6)	-
Net (Loss) (after significant items before income tax expense)	(95.4)	(98.9)	(69.8)	(29.1)	(41.7%)
Net (Loss) (after significant items and income tax expense)	(108.8)	(111.2)	(84.3)	(27.0)	(32.0%)
Net Cash Flow ³	(10.1)	(27.8)	(12.4)	(15.3)	-
Net Debt ⁴	(72.9)	(72.9)	(44.7)	(28.2)	(63.2%)

Statutory results for FY20 include adoption of AASB 16 leasing standard (AASB16). Prior period comparatives have not been restated for the impact of AASB16 as the modified retrospective approach has been adopted. The FY20 results have been adjusted where applicable to exclude the impact of AASB16 to enable financial users to better understand underlying comparatives on a like for like basis. See Appendix 1.

CEO Commentary

While our key tier 1 food and beverage customers continue to use the catalogue channel to promote their products, they are currently at reduced pagination. COVID-19 has had an adverse impact on our business with print and distribution volumes and revenues being significantly below those experienced before the pandemic.

¹ Unaudited

² Includes \$12.2 million in FY20 of wage support schemes from Australian and New Zealand Governments

³ Net Cash Flow equals Net Cash Flow from Operations less Investing Cash Flows and proceeds from share issue

⁴ Excludes lease liabilities from the adoption of AASB16

The current Stage 4 Restrictions in Melbourne has created additional uncertainty about demand from key catalogue and publishing customers. In this environment it is too early to predict what our “new normal” will look like.

Given a \$130M or 19.4% fall in sales in FY20 due primarily to COVID-19 and compared to the previous year, it is obvious that our fixed cost base is not aligned to revenues and further restructuring to both our manufacturing and support infrastructure is required.

To facilitate the restructure at an affordable cost, the company has sought to terminate the existing Print Australia Enterprise Bargaining Agreement (EBA) and replace it with more realistic redundancy scales, consistent with industry and community standards. This will enable the company to cost effectively realign the fixed cost base, produce operational savings, and assist with being able to attract new equity into the business. Restructuring under the existing EBA is prohibitive given the company’s current financial position.

The company’s plans to de-leverage the business via possible asset sales and/or equity re-capitalisation (as announced at the half year results in February 2020) have been delayed due to the widespread impact of COVID-19. Such plans continue to be pursued and are expected to progress over coming months subject to market conditions permitting.

FY20 Results Commentary

Overview

Sales Revenue (\$m) - Statutory	FY20	FY19	Var \$	Var %
Ovato Australia Group	449.3	554.9	(105.7)	(19.0%)
Ovato New Zealand Group	90.0	114.3	(24.3)	(21.3%)
TOTAL GROUP	539.3	669.2	(130.0)	(19.4%)

EBITDA ⁵ (\$m) - Statutory	FY20	FY19	Var \$	Var %
Ovato Australia Group	31.2	26.3	4.9	18.7%
Ovato New Zealand Group	1.2	4.6	(3.3)	(73.1%)
TOTAL GROUP	32.4	30.8	1.6	5.1%

EBITDA ⁵ (\$m) - Pre AASB16	FY20	FY19	Var \$	Var %
Ovato Australia Group	11.5	26.3	(14.8)	(56.2%)
Ovato New Zealand Group	(2.3)	4.6	(6.9)	-
TOTAL GROUP	9.2	30.8	(21.6)	(70.0%)

Pre AASB 16 results compared to prior comparative period (pcp) are as follows:

- FY20 sales revenue at \$539.3M is \$130.0M or 19.4% lower
- FY20 EBITDA⁵ at \$9.2M down 70.0% or \$21.6M
- Ovato Aust EBITDA⁵ of \$11.5M down \$14.8M or 56.2%
- Ovato NZ EBITDA⁵ loss of \$2.3M down \$6.9M
- Net debt pre AASB16 at June 2020 was \$72.9M vs December 2019 at \$90.9M and June 19 at \$44.7M

⁵ Before significant items

FY20 Group Sales at \$539.3M were down \$130.0M or 19.4%, primarily due to \$105.7M lower revenues at Ovato Australia. This was mainly due to lower Print and Residential Distribution sales in weak retail markets, combined with the unfavourable COVID-19 impact in the second half of the year. Revenues at Ovato New Zealand were \$24.3M lower mostly in heatset print after the business was forced to temporarily close by Government directive as that country entered lockdown for several weeks at the onset of COVID-19.

Year to date sales at February 2020 of \$415M were 9% or \$43M lower pcp in tough retail markets. The onset of COVID-19 greatly impacted the Australasian retail sector from March 2020 with sales revenues in the period from March to June 2020 down by 41% or \$87M pcp as major reductions in volumes occurred across all key sectors.

Statutory FY20 EBITDA pre significant items was \$32.4M up \$1.6M and included \$23.2M of favourable AASB16 adjustments. FY20 EBITDA⁶ at \$9.2M was down \$21.6M or 70.0% pcp with Ovato Australia at \$11.5M was down \$14.8M pcp and New Zealand EBITDA⁶ loss of \$2.3M was down \$6.9M pcp. While the business benefited from \$12.2M of wage subsidies as well as very tight cost controls, this was not able to offset the adverse impact from lower revenues.

Ovato Australia Group

Statutory FY20 EBITDA pre significant items of \$31.2M includes a positive AASB 16 impact of \$19.7M. FY20 EBITDA⁶ for Ovato Australia at \$11.5M was down 56.2% or \$14.8M pcp due mostly to lower Print & Distribution revenues partially offset by NSW site consolidation savings and Government wage subsidies.

Revenue in Australia was down \$105.7M or 19% pcp. Catalogue revenues were down 21% with tier one food & beverage retail catalogues down 10% pcp (while it was up 1% in H1, in H2 with COVID-19 a drop of 21% occurred). The non-food & beverage sector was impacted with full year sales down 26%.

Ovato New Zealand Group

Statutory FY20 EBITDA pre significant items was \$1.2M including \$3.5M of favourable AASB 16 impact. The FY20 EBITDA⁶ loss at \$2.3M down \$6.9M was mainly due to lower heatset and sheetfed revenues in an increasingly competitive market.

New Zealand continues to be impacted by overcapacity in the heatset 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 taking a market leadership position in proactively seeking an industry led solution to the current market dynamics.

Significant Items

Significant items booked in FY20 were \$72.5M pre-tax up \$8.9M pcp. Cash significant items at \$31.8M includes employee related costs, press relocation costs and NSW site consolidation related items. Non-cash significant items at \$40.7M were up year on year on higher impairments of goodwill and plant & equipment.

⁶ Before significant items and AASB 16



Debt

Net Debt at June 2020 was \$72.9M⁷ which is \$18M below December 2019 and \$28.2M higher than at June 2019. Following the onset of COVID-19 the Group has taken a number of temporary actions to manage cash flow in order to offset lower sales revenues and protect liquidity. This includes accessing the Australian and New Zealand Government wage support schemes, agreeing new terms with key suppliers including the ATO, rent deferrals and standing down staff to lower hours in line with lower revenues.

Extended reporting and lodgement deadline

While Ovato is endeavouring to lodge its full year financial reports, directors' reports and auditors reports in relation to its financial year ended 30 June 2020 by 30 September 2020, Ovato gives notice that it intends to rely upon the ASIC Corporations (Extended Reporting and Lodgement Deadlines-Listed Entities) Instrument 2020/451 (ASIC Instrument) and ASX's Class Waiver Decision – Extended Reporting and Lodgement Deadlines (ASX Waiver) should it be delayed in doing so as its reporting processes have been impacted by COVID-19 and it does not want to be precluded from relying upon the ASIC Instrument and the ASX Waiver by failing to give timely notice. Ovato will also immediately make a further announcement to the market if there is a material difference between its unaudited accounts released with this announcement and its audited accounts where it has not lodged its full year reports by 30 September 2020.

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This announcement has been authorised for release by the Board of Ovato.

⁷ Excludes Lease Liabilities from the adoption of AASB16

Appendix 1

Profit & Loss impact from adoption of AASB 16

The adoption of AASB 16 in FY20 has resulted in a net benefit of \$2.5M post tax expense.

\$m	FY20 (Statutory)	FY20 (pre AASB16)	FY19 (Statutory / pre AASB16)	% (pre AASB16)
Sales Revenue - Statutory	539.3	539.3	669.2	(19.4%)
EBITDA (before significant items)	32.4	9.2	30.8	(70.0%)
Depreciation & Amortisation	(21.2)	(21.2)	(28.6)	26.1%
Depreciation - ROUA	(15.8)	-	-	-
EBIT (before significant items)	(4.5)	(11.9)	2.2	-
Finance Costs	(8.5)	(8.5)	(8.4)	(1.0%)
Finance Costs - ROUA	(9.8)	-	-	-
Net (Loss) (after tax before significant items)	(16.7)	(15.0)	(4.4)	-
Significant items post tax	(92.1)	(96.2)	(79.9)	(20.5%)
Net (Loss) (after significant items before income tax expense)	(95.4)	(98.9)	(69.8)	(41.7%)
Net (Loss) (after significant items and income tax expense)	(108.8)	(111.2)	(84.3)	(32.0%)

Changes in the Income Statement due to AASB16 - FY20	\$'000
Operating lease expenses (previous lease accounting)	23,184
EBITDA (pre Significant Items uplift due to AASB16)	23,184
Depreciation of ROU assets	(15,804)
Gain on recognition of finance sub-lease receivable (Significant Item)	5,976
EBIT (after Significant Items)	13,356
Net finance costs	(9,841)
EBT	3,515
Income tax expense	(1,052)
Benefit for the full-year	2,463

Balance sheet impact from adoption of AASB 16

- AASB 16 brings leases on balance sheet as a Right-Of-Use (ROU) asset and corresponding lease liability.
- Recognition at 1 July 2019 of ROU assets of \$100.9M, lease liabilities of \$122.9M, finance lease receivables of \$4.1M and deferred tax assets of \$6.0M.
- ROU assets reduced at 1 July 2019 by \$21.9M of onerous lease provisions and finance lease receivables.
- Adjustment of \$14.4M taken to opening accumulated losses.
- Increase in net debt at 30 June 2020 by \$107.7M, due to recognition of lease liabilities.
- No material impact on debt covenants.