Notice of Extraordinary General Meeting

Ovato Limited

ACN 050 148 644

15 July 2021

10.30 AM AEST

The Directors recommend you vote in favour of the resolutions contained in this notice of meeting.

The Independent Expert has determined that the Transactions are fair and reasonable to holders of the Company's ordinary securities whose votes are not to be disregarded.

OVATO LIMITED

ACN 050 148 644

15 June 2021

Dear Shareholder

Approval of (1) the sale of shares in Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Limited; and (2) the increase in the amount secured by a security in relation to the provision of a loan, in each case to an associate of a substantial holder

This notice relates to the seeking of Shareholder approval for the following **Transactions**:

- the sale of 100% of the shares in each of Ovato Retail Distribution Pty Ltd ACN 088 251 727 (**Ovato Retail AU**) and Ovato Retail Distribution NZ Limited NZBN 9429035254683 (**Ovato Retail NZ**), by Ovato Limited ACN 050 148 644 (the **Company**) and Ovato NZ Limited NZBN 9429038953545 (**Ovato NZ**) respectively, to Are Media Limited NZBN 9429048411219 (**Are Media**), which is an associate of a substantial holder of the Company, pursuant to a Share Sale Agreement between the Company, Ovato NZ and Are Media dated 3 June 2021 (**SSA**) (the **Share Sale Transaction**); and

- the Company increasing the amount that is able to be borrowed from Are Media Holdco ACN 649 385 044 (**Are Media Holdco**) pursuant to a loan agreement between the Company, Ovato NZ and Are Media Holdco dated 17 May 2021 (as amended from time to time) (the **Loan Agreement**) from A$2.3 million to A$4.8 million, resulting in an increase in the amount secured (from A$2.3 million to A$4.8 million) under the security taken by HC Management Pty Ltd ACN 169 916 885 (as security trustee under a Security Trust Deed dated 26 June 2009) (the **Security Trustee**) over the shares in Ovato Retail AU and Ovato Retail NZ for the benefit of, among others, Are Media Holdco (the **Security Increase**).

Relevantly, each of Are Media and Are Media Holdco is an associate of Are Media Pty Limited ACN 053 273 546 (**Are Media AU**), which holds a relevant interest of approximately 16.4% in the Company as at the date of this notice and accordingly is a substantial holder in the Company.

The Company is seeking the approval of Shareholders for the Transactions for the purposes of the ASX Listing Rules on the terms set out in this notice.

The Independent Expert has determined that each Transaction is fair and reasonable to holders of the Company's ordinary securities whose votes are not to be disregarded. Shareholders should carefully consider the Independent Expert's Report, which is attached to this notice at Annexure B.

Further, the Company's major shareholder, the Hannan family, and associated entities (the **Hannan Entities**) have indicated their intention to vote in favour of the resolutions contained in this notice.[1] The Hannan Entities hold an interest of approximately 43% in the Company as at the date of this notice.

The Directors unanimously recommend that Shareholders vote to approve the Transactions. The reasons for this recommendation are contained in the explanatory notes to the resolutions proposed in this notice.

The Directors intend to vote any shares in the Company under his or her control in favour of the Transactions.

Due to the ongoing COVID-19 pandemic, the meeting will be held online. Information on how to participate in the meeting is included in the notice of meeting.

If you are unable to attend the meeting on Thursday, 15 July 2021, at 10.30am (AEST), we ask that you complete and send your proxy form to the Company which must reach us by no later than 10.30am (AEST) on Tuesday, 13 July 2021.

Yours sincerely
James Hannan
Chief Executive Officer
Ovato Limited ACN 050 148 644

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[1] The Hannan Entities are the Company's Chairman, Michael Hannan, James Hannan, Lindsay Hannan, Richard O'Connor, Adrian O'Connor, Sayman Pty Ltd ACN 169 370 610 in its capacity as trustee for the Lindsay Hannan Family Trust, Wicklow Properties Pty Limited ACN 123 501 477, Rathdrum Properties Pty Limited ACN 123 510 001 as trustee of the Rathdrum Property Trust, Josproud Pty Limited ACN 615 514 513, Peter Parker Pty Limited ACN 615 514 531, Lafim Pty Limited ACN 615 514 497 and F. Hannan Pty Limited ACN 615 514 504.

OVATO LIMITED

ACN 050 148 644

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS GIVEN that an extraordinary general meeting of Ovato Limited ACN 050 148 644 will be held virtually on Thursday, 15 July 2021, at 10.30am (AEST) online.

The business of the extraordinary general meeting affects your shareholding and your vote is important.

Voting online

Due to the ongoing uncertainty about restrictions on social gatherings as a consequence of the global COVID-19 pandemic, the Company has taken steps to ensure all Shareholders can participate in the meeting virtually online while maintaining their health and safety, and abiding by Federal and State Government requirements and guidelines regarding COVID-19. Shareholders will not be able to attend the meeting in person.

Shareholders do not need to attend the meeting physically in order to cast their votes or participate in the meeting. Accordingly, the Company strongly encourages all Shareholders who wish to vote to do so by:

(a) participating in the virtual meeting and casting a vote online;

(b) appointing the chair of the meeting as their proxy (and where desired, direct the chair how to vote on resolutions) by completing and returning the proxy form; or

(c) lodging their votes online at www.investorvote.com.au.

Virtual attendance

To enable participation by Shareholders in the meeting without physical attendance, the Company will hold the meeting online via the Lumi platform at https://web.lumiagm.com with meeting ID 315-305-464.

Shareholders can access this platform by navigating to https://web.lumiagm.com on latest versions of Chrome, Safari, Edge or Firefox. Please ensure your browser is compatible.

Upon entering the meeting ID into the Lumi platform, Shareholders should then log in to the virtual meeting using their SRN/HIN and postcode (Australian resident) or their SRN/HIN and three letter country code (overseas resident). Any appointed third party proxies should contact the Company's share registry, Computershare Investor Services, on +61 3 9415 4024 to receive their login information.

Shareholders attending the meeting online will be able to ask questions in writing and vote during the meeting via the Lumi platform.

All resolutions will be conducted by poll. Online voting registration will commence 30 minutes prior to the start of the meeting. More information regarding virtual attendance at the meeting (including how to vote, comment and ask questions virtually during the meeting) is available in the virtual meeting guide, which can be accessed at: www.computershare.com.au/virtualmeetingguide.

Appointment of proxies

Shareholders who do not plan to attend the meeting are encouraged to complete and return the proxy form for each of their holdings of shares. A proxy form and a replacement proxy form may be obtained from:

Computershare Investor Services Pty Limited

Enquiries within Australia: 1300 556 161

Enquiries outside Australia: +61 3 9415 4000

Investor Centre contact details: www.investorcentre/contact

Technical difficulties may arise during the course of the meeting. The chairman has discretion as to whether and how the meeting should proceed in the event that technical difficulties arise. In exercising his discretion, the chairman will have regard to the number of members impacted and the extent to which participation in the business of the meeting is affected.

Where the chairman considers it appropriate, the chairman may continue to hold the meeting and transact business, including conducting a poll and voting in accordance with valid proxy instructions. For this reason, Shareholders are encouraged to lodge a proxy by 10.30am (AEST) on Tuesday, 13 July 2021 even if they plan to attend online.

ITEMS OF BUSINESS

1. RESOLUTION 1 – APPROVAL OF THE SHARE SALE TRANSACTION

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That the sale by the Company and Ovato NZ of 100% of the issued share capital in each of Ovato Retail Distribution Pty Ltd ACN 088 251 727 and Ovato Retail Distribution NZ Limited NZBN 9429035254683 respectively to Are Media be approved under and for the purposes of ASX Listing Rule 10.1."

VOTING EXCLUSION STATEMENT

The ASX Listing Rules requires that some Shareholders be excluded from voting on Resolution 1.

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast in favour of Resolution 1 by or on behalf of Are Media and any other person who will obtain a material benefit as a result of the transaction (except a benefit solely by reason of being a holder of ordinary securities in the Company), and any associate of such persons (including Are Media AU).

However, this does not apply to a vote cast in favour of Resolution 1 by:

(a) a person as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with directions given to the proxy or attorney to vote on Resolution 1 in that way; or

(b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with a direction given to the chair to vote on Resolution 1 as the chair decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

(i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Resolution 1; and

(ii) the holder votes on Resolution 1 in accordance with directions given by the beneficiary to the holder to vote in that way.

2. RESOLUTION 2 – APPROVAL OF THE SECURITY INCREASE

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That the increase in the facility limit of the loan from Are Media Holdco to the Company (from A$2.3 million to A$4.8 million) and the corresponding increase in the amount secured by the security taken by the Security Trustee for the benefit of, among others, Are Media Holdco, over the shares in Ovato Retail AU and Ovato Retail NZ, be approved under and for the purposes of ASX Listing Rule 10.1."

VOTING EXCLUSION STATEMENT

The ASX Listing Rules requires that some Shareholders be excluded from voting on Resolution 2.

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast in favour of Resolution 2 by or on behalf of Are Media and any other person who will obtain a material benefit as a result of the transaction (except a benefit solely by reason of being a holder of ordinary securities in the Company), and any associate of such persons (including Are Media AU).

However, this does not apply to a vote cast in favour of Resolution 2 by:

(a) a person as proxy or attorney for a person who is entitled to vote on Resolution 2, in accordance with directions given to the proxy or attorney to vote on Resolution 2 in that way; or

(b) the chair of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 2, in accordance with a direction given to the chair to vote on Resolution 2 as the chair decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

(i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Resolution 2; and

(ii) the holder votes on Resolution 2 in accordance with directions given by the beneficiary to the holder to vote in that way.

The chair of the meeting intends to vote open proxies in favour of each Resolution.

The Directors recommend that the Company's Shareholders carefully read all of the material contained in this notice of meeting (including the Independent Expert's Report) before deciding whether or not to vote in favour of the Resolutions.

VOTING ENTITLEMENT

In accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), all ordinary shares in the Company that are quoted securities as at 7.00pm (AEST) on Tuesday, 13 July 2021 will be taken, for the purposes of the meeting, to be held by the persons who held them at that time.

PROXIES

If you are a Shareholder entitled to attend and vote, you are entitled to appoint one or two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which each may exercise half of the votes. A proxy need not be a Shareholder of the Company and can be an individual or a body corporate.

If you want to appoint one proxy, please use the proxy form provided. If you want to appoint two proxies, please follow the instructions on the front page of the proxy form.

If you appoint a proxy who is also a Shareholder or is also a proxy for another Shareholder your directions will be effective on a poll and your proxy votes.

A body corporate appointed as a Shareholder's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the extraordinary general meeting. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

A proxy may vote or abstain from voting as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on a particular resolution. If an appointment directs the proxy is to vote on a particular resolution:

- if the proxy is the chair – the proxy must vote on a poll and must vote that way; and
- if the proxy is not the chair – the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

To cast a vote, a Shareholder will need to take one of the following steps:

1. attend the meeting online and cast the Shareholder's vote at the meeting;
2. cast the Shareholder's vote online by visiting www.investorvote.com.au and entering the Shareholder's Control Number, SRN/HIN and postcode, which are shown on the first page of the enclosed proxy form; or
3. complete and lodge the manual proxy form at the share registry for the Company, Computershare Investor Services Pty Limited:
    a. by post at the following address using the enclosed business reply paid envelope: GPO Box 242, Melbourne VIC 3001; or
    b. by facsimile on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
4. for Intermediary Online subscribers only (custodians), cast the Shareholder's vote online by visiting www.intermediaryonline.com, so that it is received no later than 10.30 am (AEST) on Tuesday, 13 July 2021.

Date 15 June 2021

By order of the Board

Alistair Clarkson
Company Secretary

EXPLANATORY NOTES

This information forms part of the Notice of Extraordinary General Meeting and has been prepared to provide information about the item of business contained in the Notice of Extraordinary General Meeting.

The Directors recommend that Shareholders read this information in full before making any decision in relation to the Resolutions.

Each Resolution to be put to Shareholders at the meeting is an ordinary resolution. Ordinary resolutions require approval by a simple majority of votes cast by Shareholders present (either in person, or by representative or proxy) and entitled to vote on the resolutions, in order to be passed.

1. THE SHARE SALE TRANSACTION

It is proposed that the Company and Ovato NZ sell 100% of the issued share capital of each of Ovato Retail AU and Ovato Retail NZ respectively to Are Media on completion of the SSA.

The headline purchase price payable by Are Media in respect of the Share Sale Transaction is A$15,000,000 (excluding GST) and assumes a working capital amount of negative A$27,000,000. The purchase price is subject to adjustments in respect of net working capital and net debt.

In connection with the Share Sale Transaction, the Company and Ovato NZ propose to also enter into a transitional services agreement under which they will provide certain transitional services to Are Media up to 12 months post-completion of the Share Sale Transaction on a cost recovery basis (the **TSA**).

Further material terms in respect of the SSA are set out in Section 1.1(g) below.

1.1 Listing Rule requirements

ASX Listing Rule 10.1 provides that the Company and its controlled entities or subsidiaries must not dispose of or agree to dispose of a substantial asset to certain persons of influence, unless it obtains the approval of its Shareholders.

The Share Sale Transaction constitutes the disposal of substantial assets, because the headline purchase price to be received by the Company and its subsidiary, Ovato NZ, for the disposal of each of Ovato Retail AU and Ovato Retail NZ respectively under the SSA is A$15,000,000 (excluding GST), which is more than 5% of the equity interests of the Company as set out in the latest accounts given to ASX under the ASX Listing Rules.

Further, the disposal of substantial assets of the Company is to a person of influence for the purposes of ASX Listing Rule 10.1.4, which includes an associate of a person who is, or was at any time in the 6 months before the relevant transaction or agreement, a substantial (10%+) holder (**Substantial Holder**) in the Company. The buyer under the SSA, Are Media, is an associate of Are Media AU, which holds a relevant interest of approximately 16.4% in the Company as at the date of this notice and is accordingly a Substantial Holder in the Company.

For the purposes of ASX Listing Rule 10.5, the Company provides the following information:

(a) (**person to whom the Company is disposing of the substantial asset**) the person to whom the Company is disposing of the substantial assets is Are Media Limited NZBN 9429048411219 (**Are Media**).

(b) (**person of influence**) Are Media is a person of influence for the purposes of ASX Listing Rule 10.1.4. Are Media is an associate of Are Media AU, which holds a relevant interest of approximately 16.4% in the Company as at the date of this notice and is accordingly a Substantial Holder in the Company.

(c) (**substantial assets**) the substantial assets that are the subject of the Share Sale Transaction are the entire issued share capital of Ovato Retail AU and the entire issued share capital of Ovato Retail NZ.

(d) (**consideration**) the aggregate consideration payable by Are Media to the Company and Ovato NZ for the disposal is A$15,000,000 (excluding GST), with an assumed net working capital of negative A$27,000,000. The purchase price is subject to adjustments in respect of net working capital and net debt;

(e) (**intended use of funds from disposal**) the Company will use the proceeds arising from the Share Sale Transaction to ensure that the Company's corporate group is able to continue to operate as a going concern and for general working capital purposes;

(f) (**timetable for completing disposal**) the sale of the entire issued share capital of each of Ovato Retail AU and Ovato Retail NZ will complete on:

(i) where the conditions precedent are satisfied or waived at least 2 business days before the last day of the calendar month, the last business day of the calendar month in which all conditions precedent to the Share Sale

Transaction have been satisfied or waived (other than any condition precedent which by its nature may only be satisfied immediately prior to completion);

(ii) where the conditions precedent are satisfied or waived on or within the 2 business days before the last day of a calendar month, the last business day of the next calendar month in which each of the conditions precedent have been satisfied or waived (other than any condition precedent which by its nature may only be satisfied immediately prior to completion); or

(iii) such other date as agreed by the parties.

The parties currently expect that the Share Sale Transaction will complete on or around July 2021.

(g) (**SSA**) Further material terms in respect of the SSA are as follows:

(i) the completion of the Share Sale Transaction remains subject to the satisfaction or waiver of conditions precedent, including:

- Are Media receiving a written communication from the ACCC that it does not propose to oppose, intervene or seek to prevent the Share Sale Transaction;
- Are Media receiving notice of clearance under section 66 of the *Commerce Act 1986* (NZ) from the NZCC in respect of the Share Sale Transaction;
- Are Media notifying the OIO in respect of the proposed sale of shares in Ovato Retail NZ;
- the Shareholders approving the Share Sale Transaction for the purposes of Listing Rule 10.1;
- Scottish Pacific Business Finance Pty Ltd ACN 008 636 388 and Scottish Pacific Business Finance Limited (New Zealand Company Number 535333) providing consent to the proposed sale of shares in Ovato Retail AU; and
- receipt of approvals from certain contract counterparties.

(ii) the headline purchase price is A$15,000,000 (excluding GST) and the SSA assumes a net working capital amount of negative A$27,000,000. The purchase price is subject to adjustments in respect of net debt and net working capital. An amount equal to the amounts outstanding from the Company to Are Media Holdco under the Loan Agreements (as at the date of this notice of meeting, A$2.3 million, but likely to be A$4.8 million if Resolution 2 is passed) will be set off by Are Media against the portion of the purchase price to be paid at completion of the Share Sale Transaction;

(iii) the Company and Ovato NZ have agreed to customary restrictions on the conduct of the business of Ovato Retail AU and Ovato Retail NZ in the period in between execution of the SSA (3 June 2021) and completion of the Share Sale Transaction;

(iv) the Company and Ovato NZ will be required to deliver a number of customary documents at completion of the Share Sale Transaction, including leases or subleases for certain premises;

(v) the SSA is subject to customary limitations on claims against the Company and Ovato NZ, including:

- a cap on tax claims and claims for breach of title and capacity warranties of 100% of the purchase price for the shares in Ovato Retail AU and Ovato Retail NZ under the Share Sale Transaction;
- a cap on all other claims of 50% of the purchase price for the shares in Ovato Retail AU and Ovato Retail NZ under the Share Sale Transaction;
- a time limit of 7 years from the date of completion in respect of tax claims brought by Are Media; and
- a time limit of 18 months from the date of completion in respect of all other claims brought by Are Media; and

(vi) the SSA may be terminated by either party if the conditions precedent are not satisfied on or before 30 October 2021 or if an insolvency event occurs in respect of the other party under the Share Sale Transaction.

The SSA is otherwise on customary terms for an agreement of that nature, including warranties as to title and capacity and the operation of the business of Ovato Retail and Ovato Retail NZ. The Company and Ovato NZ also provide customary indemnities for breach of warranty and a tax indemnity; and

(h) (**voting exclusion statement**) the voting exclusion statement is set out directly under the Resolution on page 4 of the notice of meeting.

2. THE SECURITY INCREASE

On 17 May 2021, the Company, Ovato NZ and Are Media Holdco entered into the Loan Agreement, pursuant to which:

- Are Media Holdco agreed to lend A$2.3 million to the Company; and
- Are Media Holdco acceded to a Security Trust Deed dated 26 June 2009 to which HC Management Pty Ltd ACN 169 916 885 is **Security Trustee**, in order for Are Media Holdco to obtain the benefit of security over Ovato Retail AU and Ovato Retail NZ held by the Security Trustee in its capacity as trustee under the Security Trust Deed.

The Company, Ovato NZ and Are Media Holdco now propose to amend the Loan Agreement in order to increase the facility limit under the Loan Agreement by A$2.5 million, so that the Company may be entitled to draw down up to A$4.8 million (subject to Are Media Holdco's agreement).

The amendment of the Loan Agreement will be conditional on Shareholder approval, because it is proposed that the amount of the loan under the Loan Agreement will increase to A$4.8 million and, accordingly, the value of the consideration being received by the Company under the Loan Agreement for the security already granted by the Company to the Security Trustee for the benefit of, among others, Are Media Holdco will exceed 5% of the equity interests of the Company.

2.1 Listing Rule requirements

ASX Listing Rule 10.1 provides that the Company and its controlled entities or subsidiaries must not dispose of or agree to dispose of a substantial asset to certain persons of influence, unless it obtains the approval of its Shareholders.

The Security Increase will now constitute the disposal of substantial assets, because the value of the consideration being received by the Company under the Loan Agreement for the security already granted by the Company to the Security Trustee for the benefit of Are Media Holdco is increasing to A$4.8 million and therefore now exceeds 5% of the equity interests of the Company. Relevantly, a grant of security over the shares in Ovato Retail AU and Ovato Retail NZ is considered to be a 'disposal' which, for the purposes of ASX Listing Rule 10.1, includes using an asset as collateral.

Further, the disposal of substantial assets of the Company is to a person of influence for the purposes of ASX Listing Rule 10.1.4, which includes an associate of a person who is, or was at any time in the 6 months before the relevant transaction or agreement, a Substantial Holder in the Company. The person that is receiving the benefit of the security, Are Media Holdco, is an associate of Are Media AU, which holds a relevant interest of approximately 16.4% in the Company as at the date of this notice and is accordingly a Substantial Holder in the Company.

For the purposes of ASX Listing Rule 10.5, the Company provides the following information:

(a) (**person to whom the Company is disposing of the substantial assets**) the person to whom the Company is disposing of the substantial assets is HC Management Pty Ltd ACN 169 916 885 (the **Security Trustee**) for the benefit of, among others, Are Media Holdco Pty Ltd ACN 649 385 044 (**Are Media Holdco**).

(b) (**person of influence**) Are Media Holdco is a person of influence for the purposes of ASX Listing Rule 10.1.4. Are Media Holdco is an associate of Are Media AU, which holds a relevant interest of approximately 16.4% in the Company as at the date of this notice and is accordingly a Substantial Holder in the Company.

(c) (**substantial assets**) the substantial assets that are the subject of the Security Increase are the entire issued share capital of Ovato Retail AU and the entire issued share capital of Ovato Retail NZ.

(d) (**consideration**) the consideration received by the Company for the deemed "disposal" of the substantial assets pursuant to the security already granted by the Company to the Security Trustee for the benefit of, among others, Are Media Holdco is A$4.8 million (being the amount of the loan under the Loan Agreement, as increased by the document amending the Loan Agreement);

(e) (**intended use of funds from disposal**) the Company will use the proceeds arising from drawing down an additional A$2.5 million under the Loan Agreement to make priority payments to the Company's employees pursuant to section 560 of the Corporations Act and, to the extent acceptable to Are Media Holdco, to enhance the Company's working capital position, repay debt and assist in restructuring the Company's business.

(f) (**timetable for completing disposal**) it is anticipated that if Shareholders approve the Security Increase, the Company will request that Are Media Holdco lends the additional A$2.5 million to the Company. If Are Media Holdco agrees to lend that amount, the Security Increase will occur shortly after the date that Shareholders approve the Security Increase.

(g) (**Loan Agreement**) Further material terms in respect of the Loan Agreement are as follows:

(i) the Company's ability to draw down the additional A$2.5 million under the Loan Agreement remains subject to Are Media Holdco's agreement;

(ii) the Company must repay any amounts outstanding in respect of the loan under the Loan Agreement on the earlier of:

- the date of completion of the SSA;
- 10 business days after Are Media Holdco advises the Company that the acquisition of shares under the SSA cannot proceed due to a failure to agree to terms of definitive binding agreements; and
- the date which is 6 months after the date the loan was first made under the Loan Agreement;

(iii) the Company may make early repayment in full of the loan under the Loan Agreement prior to the maturity date, on giving 5 business days' written notice to Are Media Holdco; and

(iv) interest (other than customary default interest) is not payable on the loan under the Loan Agreement.

The SSA is otherwise on customary terms for an agreement of that nature; and

(h) (**voting exclusion statement**) the voting exclusion statement is set out directly under the Resolution on page 4 of the notice of meeting.

3. INDEPENDENT EXPERT'S REPORT

ASX Listing Rule 10.5.10 requires a notice of meeting containing a resolution under Listing Rule 10.1 to include a report on the relevant transaction from an independent expert.

Lonergan Edwards & Associates (the **Independent Expert**) has been engaged by the Company and has prepared the Independent Expert's Report set out in **Annexure A** to this notice of meeting, and takes responsibility for that report. The Independent Expert is not responsible for any other information contained within this notice of meeting.

The Independent Expert has determined that each Transaction is fair and reasonable to holders of the Company's ordinary securities whose votes are not to be disregarded.

4. DIRECTORS' RECOMMENDATION

The Directors recommend that Shareholders vote in favour of the Resolutions because:

(a) the consideration payable to the Company and Ovato NZ in respect of the Share Sale Transaction and the increased limit of the facility able to be drawn down under the Loan Agreement between the Company, Ovato NZ and Are Media Holdco dated 17 May 2021 will together ensure that the Company's corporate group is able to continue to operate as a going concern and for general working capital purposes; and

(b) the Company has made a strategic decision to focus on its core business, being the printing business.

5. WHAT HAPPENS IF THE RESOLUTIONS ARE PASSED OR NOT PASSED?

Each Resolution seeks the required Shareholder approval to the sale of shares and grant of security as part of the Transactions under and for the purposes of Listing Rule 10.1.

(a) Resolution 1

If Resolution 1 is passed, subject to the satisfaction or waiver of other conditions precedent to the Transaction, the Company will be able to complete the Share Sale Transaction.

If Resolution 1 is NOT passed (which the Company considers is low risk given that the Hannan Entities have indicated their intention to vote in favour of Resolutions), the Company will not be able to complete the Share Sale Transaction.

(b) Resolution 2

If Resolution 2 is passed, the Company will be able to draw down an additional A$2.5 million (in addition to the A$2.3 million it has already drawn down) in respect of the Loan Agreement between the Company, Ovato NZ and Are Media Holdco dated 17 May 2021, subject to Are Media Holdco's agreement.

If Resolution 2 is NOT passed (which the Company considers is low risk given that the Hannan Entities have indicated their intention to vote in favour of the Resolutions), the Company will not be able to draw down an additional $2.5 million pursuant to the Loan Agreement between the Company, Ovato NZ and Are Media Holdco dated 17 May 2021.

GLOSSARY

A$ means Australian dollars.

ACCC means the Australian Competition and Consumer Commission.

Are Media means Are Media Limited NZBN 9429048411219.

Are Media AU means Are Media Pty Limited ACN 053 273 546.

Are Media Holdco means Are Media Holdco Pty Ltd ACN 649 385 044.

ASX means the Australian Securities Exchange.

ASX Listing Rules means the listing rules of the ASX.

Company means Ovato Limited ACN 050 148 644.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company.

GST has the meaning given to it in the *A New Tax System (Goods & Services Tax) Act 1999* (Cth).

Independent Expert's Report means the report prepared by the Independent Expert as set out in Annexure A.

NZCC means the New Zealand Commerce Commission.

OIO means the Overseas Investment Office of New Zealand.

Ovato NZ means Ovato NZ Limited NZBN 9429038953545.

Ovato Retail AU means Ovato Retail Distribution Pty Ltd ACN 088 251 727.

Ovato Retail NZ means Ovato Retail Distribution NZ Limited NZBN 9429035254683.

Resolutions means the resolutions that are the subject of this notice of meeting.

Shareholder means a registered holder of quoted securities in the Company as at 7:00pm (AEST) on Tuesday, 13 July 2021.

SSA means the Share Sale Agreement between the Company, Ovato NZ and Are Media dated 3 June 2021.

Annexure A

Independent Expert's Report

LONERGAN EDWARDS
& ASSOCIATES LIMITED

ABN 53 095 445 560
AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

The Directors
Ovato Limited
Level 4
60 Union Street
Pyrmont NSW 2009

8 June 2021

Subject: Proposed sale of Ovato Retail Distribution (ORD)

Dear Directors

Introduction

1 On 4 June 2021, Ovato Limited (Ovato or the Company) announced that it had entered into a binding sale agreement to sell 100% of the ordinary issued share capital of each of Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Limited (together ORD) to Are Media Limited (Are Media) for a cash payment of A$15 million[1] (Proposed Sale of ORD).

2 Are Media owns 16.38% of the issued share capital in Ovato[2], and is an associate of a substantial holder of the Company (Are Media Pty Limited) under the *Corporations Act 2001* (Cth) (Corporations Act).

3 The Proposed Sale of ORD is subject to certain conditions (which are summarised in Section I of this report), including the requirement to obtain shareholder approval. The major shareholder of Ovato, the Hannan family, who collectively hold 43.4% in Ovato[3] (the Hannan Family), has indicated its support for the Proposed Sale of ORD and intends to vote in favour of the Proposed Sale of ORD at the proposed shareholder meeting.

4 In connection with the Proposed Sale of ORD, we understand that an associate of Are Media, Are Media Holdco Pty Limited (Are Media Holdco) may also lend up to $4.8 million[4] (Loan) to Ovato.

1 On a cash and debt free basis, and subject to a working capital adjustment.
2 As at 31 March 2021.
3 As at 4 June 2021.
4 Consisting of an existing loan of $2.3 million with, subject to shareholder approval, a $2.5 million increase in the facility limit of the loan agreement under which that loan was made.

Authorised Representatives:
Wayne Lonergan • Craig Edwards* • Hung Chu • Martin Hall • Martin Holt* • Grant Kepler* • Julie Planinic* • Nathan Toscan • Jorge Resende

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.

Scope

5 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to a substantial holder (of > 10% of the entity's voting power) or an associate of a substantial holder without the approval of holders of the entity's ordinary securities. Approval is required by ordinary resolution at a general meeting.

6 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.

7 ASX Listing Rule 10.5.10 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity's ordinary securities.

8 Accordingly, the directors of Ovato have requested that Lonergan Edwards & Associates (LEA) prepare an independent expert's report (IER) stating whether, in our opinion:

(a) the Proposed Sale of ORD is fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates; and

(b) the terms of the Loan which may be provided by Are Media Holdco to Ovato are fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates.

9 LEA is independent of Ovato and Are Media and has no other involvement or interest in the proposed transactions.

Summary of opinion

Opinion on the Proposed Sale of ORD

10 In our opinion, the value of the consideration being received for ORD is significantly above our assessed value of ORD. Consequently, in our opinion, the Proposed Sale of ORD is fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates.

11 In addition, we note that the Proposed Sale of ORD will:

(a) improve the reported financial position of Ovato as a result of Are Media taking over the obligation to discharge the net working capital liabilities of ORD of some $27 million[5]

(b) allow Ovato to reduce its net debt by around $15 million (at least in the short term[6])

(c) allow Ovato to focus on its core printing business.

5 The parties have agreed that a normal level of working capital is negative $27 million (which was based on an analysis of the average working capital position over the 12 months to 30 April 2021 and earlier periods).

6 We understand that the sale proceeds will ultimately be used to restructure the core printing business to improve profitability.

12 Whilst we note that Ovato's printing business is currently unprofitable, we understand that the proceeds of the ORD sale will be used to provide additional capital to restructure and therefore improve the profitability of the core printing business. Following implementation of these initiatives, Ovato management expect that the printing business will become profitable on what is expected to be a sustainable basis.

Opinion on the Loan

13 While Are Media Holdco has already advanced $2.3 million pursuant to the Loan, subject to shareholder approval, Ovato will be able to request an advance of an additional $2.5 million under the Loan which (if advanced) would be provided prior to the completion of the acquisition of ORD. However, Are Media Holdco is under no obligation to advance an additional $2.5 million under the Loan, but may choose to do so.

14 The key terms of the Loan are summarised in Section I. Importantly, the additional $2.5 million under the Loan (if advanced) will be made on an interest-free basis, and no facility or other fees will be charged by Are Media Holdco in connection with the provision of the Loan.

15 Accordingly, in our opinion, the terms of the Loan are fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates.

Other matters

16 In preparing this report, we have considered the interests of Ovato shareholders as a whole (other than those associated with Are Media Pty Limited). Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

17 The ultimate decision by Ovato shareholders whether to approve the Proposed Sale of ORD should be based on each shareholder's assessment of the proposed transaction. This report has been provided for the benefit of shareholders in Ovato not associated with Are Media Pty Limited.

18 If in doubt about the Proposed Sale of ORD or matters dealt with in our report, Ovato shareholders should seek independent professional advice. For our full opinion on the proposed transaction, and the reasoning behind our opinion, we recommend that Ovato shareholders read the remainder of our report.

Yours faithfully

Craig Edwards	Martin Holt
Authorised Representative	Authorised Representative

LONERGAN EDWARDS & ASSOCIATES LIMITED

Table of contents

Appendices

I Key terms of the proposed transaction

Background

19 We understand that, subject to receiving shareholder approval, Ovato intends to sell 100% of the ordinary issued share capital of ORD to Are Media for a cash payment of A$15 million[7] (Proposed Sale of ORD).

20 Are Media owns 16.38% of the issued share capital in Ovato[8], and is an associate of a substantial holder of the Company (Are Media Pty Limited) under the Corporations Act.

21 In connection with the Proposed Sale of ORD, an associate of Are Media, Are Media Holdco, may also lend up to $4.8 million[9] (Loan) to Ovato.

Key terms

Proposed Sale of ORD

22 The Proposed Sale of ORD for $15 million in cash reflects the following key terms:

(a) ORD will be delivered on a cash and debt free basis

(b) a normal level of working capital will be delivered[10], including publisher liabilities, inventory, trade receivables, trade payables, provisions for returns and other net working capital items, with a post-completion adjustment against the agreed normal level to reflect the actual level of working capital delivered. The transaction will be completed on the basis of estimated working capital at completion, with any post completion true-up made against this estimate, in order to minimise the amount of any potential adjustment.

23 Furthermore, the Proposed Sale of ORD is either conditional on, or provides for, the following:

(a) Ovato shareholder approval for the transaction, due to the requirements under ASX Listing Rule 10.1

(b) Ovato obtaining and announcing to the ASX a commitment from the Hannan Family to declare an intention to vote in favour of the transaction

(c) release of all encumbrances over the shares in ORD and repayment of all external / shareholder debt

(d) regulatory approvals – Australian Competition and Consumer Commission and New Zealand (NZ) Commerce Commission approvals, and a notification to the NZ OIO[11]

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7 On a cash and debt free basis, and subject to a working capital adjustment.

8 As at 31 March 2021.

9 Consisting of an existing loan of $2.3 million with, subject to shareholder approval, a $2.5 million increase in the facility of the loan agreement under which that loan was made.

10 The parties have agreed that a normal level of working capital is negative $27 million (which was based on an analysis of the average working capital position over the 12 months to 30 April 2021 and earlier periods).

11 The Overseas Investment Office (OIO) is the NZ government agency responsible for regulating foreign direct investment into NZ.

(e) clear exit from the Ovato tax consolidated group

(f) arm's length leases or subleases to be established for ORD's Moorebank sites

(g) no insolvency of either party or of ORD

(h) clarity on shared service arrangements and interim transitional arrangements to ensure no interruption to ORD's business, with the expectation of a 12-month transitional services agreement to allow an orderly transition.

The Loan

24 The key terms of the Loan in connection with Proposed Sale of ORD are summarised below:

(a) Are Media Holdco is under no obligation to make the advance of an additional $2.5 million under the Loan, but may choose to do so

(b) the Loan is to be provided on an interest-free basis

(c) the Loan will be secured by a fixed charge over the shares of ORD

(d) the Loan is repayable (in full) on the earlier of[12] [13]:

(i) the date of completion of the acquisition of ORD by Are Media

(ii) 10 business days after Are Media advises Ovato that the acquisition of ORD cannot proceed due to a failure to agree terms of definitive binding agreements

(iii) the date which is six months after the date the Loan is made.

25 The Loan and the security interest are to be documented in a satisfactory manner to both parties and require Ovato financier consent. As a reciprocal acknowledgement of this credit support for Ovato, Are Media will also require that the Hannan Family landlords defer all rent due from any Ovato properties for the duration of the transaction through to completion of the acquisition of ORD by Are Media. The purpose of the Loan is to make priority payments to the Company's employees pursuant to s560 of the Corporations Act and, to the extent acceptable to Are Media Holdco, enhance Ovato's working capital position, repay debt and assist in restructuring Ovato's business.

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12 Noting that Ovato may repay the Loan (in full but not in part) at any time prior provided that Ovato provides five business days' written notice to Are Media Holdco.

13 In the circumstances of paragraph 24(d)(i), as an offset to the purchase price.

II Scope of our report

Purpose

26 The Independent Directors of Ovato have requested that LEA prepare an IER stating whether, in our opinion:

(a) the Proposed Sale of ORD is fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates

(b) the terms of the Loan (if advanced) are fair and reasonable to Ovato shareholders other than Are Media Pty Limited or its associates.

27 LEA is independent of Ovato and Are Media and has no other involvement or interest in the transaction.

Basis of assessment

28 In preparing our report, we have given due consideration to the ASX Listing Rules and Regulatory Guides issued by the Australian Securities & Investments Commission (ASIC), in particular Regulatory Guide 111 – *Content of expert reports* (RG 111).

29 ASX Listing Rule 10.1 states that an entity must ensure that it does not dispose of a substantial asset to a substantial holder (of > 10% of the entity's voting power) or an associate of a substantial holder without the approval of holders of the entity's ordinary securities. Approval is required by ordinary resolution at a general meeting.

30 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.

31 ASX Listing Rule 10.5.10 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity's ordinary securities.

32 RG 111 states that "fair and reasonable" should not be applied as a composite test and states there should be a separate assessment of "fair" and "reasonable". RG 111 provides that a proposed transaction (in the context of related party transactions):

(a) is "fair" if the value of the financial benefit to be provided by the entity to the other party (i.e. the value of ORD to be acquired by Are Media) is equal to or less than the value of the consideration being provided to the entity by the related party. This comparison is required to be made assuming an arm's length transaction between knowledgeable and willing, but not anxious parties

(b) is "reasonable" if it is "fair". A transaction may also be "reasonable" despite being "not fair" if the expert believes there are other reasons for non-associated shareholders to vote for the proposal.

33 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the proposed transaction is "fair" and "reasonable" to the non-associated shareholders is to consider:

(a) the market value of ORD

(b) the consideration to be paid by Are Media for ORD

(c) the extent to which (a) differs from (b) in order to assess whether Proposed Sale of ORD is “fair” under RG 111

(d) the financial position of Ovato and need to reduce debt

(e) the position of Ovato before and after the proposed transaction, and the net benefits inherent in the transaction

(f) the terms of the Loan

(g) the advantages and disadvantages of the proposed transaction from the perspective of Ovato shareholders not associated with Are Media Pty Limited.

Limitations and reliance on information

34 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over a relatively short period of time.

35 Our report is also based upon financial and other information provided by Ovato. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

36 The information provided was evaluated through analysis, equity and review to the extent considered appropriate for the purpose of forming an opinion on the proposed transaction from the perspective of the Ovato non-associated shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecast is beyond the scope of an IER.

37 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction rather than a comprehensive audit or investigation of detailed matters.

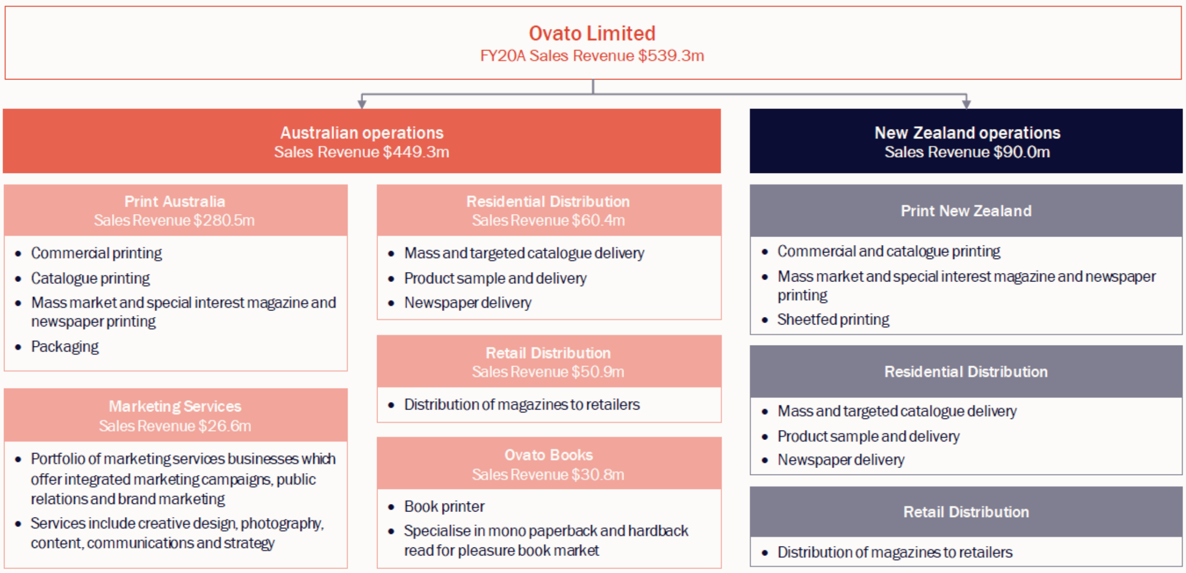
III Profile of Ovato

Overview

38 The principal activities of Ovato are commercial printing, marketing services, digital premedia, residential letterbox delivery and magazine distribution services. Ovato operates nationally in Australia and in NZ with some of the biggest and most recognised retail brands in each country as print customers.

39 An organisational diagram of Ovato is set out below showing the divisions under the Australian and NZ operations respectively:

Ovato – Australian and NZ operations



Source: Ovato Investor Presentation dated 7 December 2020, page 20.

Key risks

40 The printing industry has been affected by challenges during the past decade arising from changes in demand. A shift in consumer preferences away from magazines, newspapers and catalogues has changed the advertising landscape with reduced demand resulting in overcapacity within the industry generally.

41 Ovato's business segments are primarily in pre-media, printing and distribution of publications including catalogues, magazines and books. There is therefore an inherent risk that Ovato's product demand and pricing could continue to be subject to adverse impacts from[14]:

(a) reductions in demand volume and the effect of negative consumer confidence on retail marketing

(b) pagination reductions and title closures by magazine and newspaper publishers

14 Source: Ovato Investor Presentation dated 7 December 2020, page 35.

(c) competitive market pricing pressure, and

(d) migration of advertising, entertainment and information media from print to digital platforms.

Restructure during H1 FY21

42 During the six months to 31 December 2020 (H1 FY21), Ovato completed an extensive balance sheet restructure to deleverage the business, which reduced net debt to $34.7 million at 31 December 2020. The key aspects of this restructure included the following[15]:

(a) renegotiation of the Print Australia Enterprise Agreement with reduced redundancy scales and more flexible work practices

(b) reduction of the $40 million corporate bond to $15 million with note holders consenting to the conversion of the balance of $15 million into equity by a further issue of shares in Ovato

(c) a Court approved Creditors' and Members' Scheme of Arrangement resulting in certain debt being forgiven and the liquidation of certain companies within the Group allowing the closure of the Clayton plant

(d) negotiation with landlords allowing the exit of some onerous property leases, the negotiation of reduced rental with another, and the deferral of equipment financing loans

(e) establishment of a new $17 million secured debt facility to cash back the existing ANZ bank guarantee facility

(f) raising of $40 million in new equity, which was used for debt reduction and working capital requirements.

Statement of financial performance

43 The financial performance of Ovato for the three years ended 30 June 2020 and the six months ended 31 December 2020 is summarised below:

[15] Source: 1H FY21 investor presentation, page 2.

Ovato – Statement of financial performance[1]				
Year ended	**30 Jun 18 Audited $m**	**30 Jun 19 Audited $m**	**30 Jun 20 Audited $m**	**6 mths to 31 Dec 20 Unaudited $m**
Sales revenue				
Ovato Australia Group	613.9	554.9	449.3	191.2
Ovato New Zealand Group	120.1	114.3	90.0	44.9
Total sales revenue	734.0	669.2	539.3	236.2
EBITDA[2]	40.6	30.8	9.2	7.8
Less depreciation and amortisation	(31.3)	(28.6)	(21.2)	(10.1)
EBIT[2][3]	9.4	2.2	(11.9)	(2.2)
Less net finance costs	(7.4)	(8.4)	(8.5)	(4.2)
Net loss before income tax and significant items	2.0	(6.2)	(20.4)	(6.5)
Add income tax benefit / (expense)	(0.8)	1.8	5.4	1.7
Net loss after income tax before significant items	1.1	(4.4)	(15.0)	(4.7)
Less significant items	(39.4)	(63.6)	(78.5)	(7.9)
Less income tax benefit / (expense) on significant items	(5.6)	(16.3)	(17.8)	3.3
Net loss after income tax and significant items	(43.8)	(84.3)	(111.2)	(9.3)

Note:
1 The FY20 and H1 FY21 results have been adjusted to exclude the impact of changes required under Australian Accounting Standards Board (AASB) Standard AASB 16 – *Leases* (AASB 16). In summary, the adoption of AASB 16 increased reported earnings before interest, tax, depreciation and amortisation (EBITDA) as rent expenses are replaced by amortisation charges and interest expenses. However, in our view this EBITDA uplift should be excluded as it is simply an accounting treatment which has no cash flow impact or impact on the underlying profitability of Ovato.
2 Before significant items unless advised otherwise.
3 Earnings before interest and tax (EBIT).
Source: Ovato Annual Reports for the years ended 30 June 2019 and 30 June 2020; Ovato Half-year Report for the period ended 31 December 2020.
Rounding differences exist.

Historical performance

Half year ended 31 December 2020[16]

44 For the half-year ended 31 December 2020, Ovato's revenue fell 28.2% from the previous corresponding period (pcp) as the business continued to be adversely impacted by the COVID-19 pandemic. EBITDA before significant items included $18.3 million from the Australian Government JobKeeper scheme and $1.6 million from the NZ Government Wage Subsidy Scheme.

16 Source: Ovato Half-year Report for the period ended 31 December 2020, page 4.

Year ended 30 June 2020[17]

45 Ovato was significantly impacted by the effects of COVID-19 during the year ended 30 June 2020. Year to date sales at February 2020 were some 9% lower than in the pcp in the face of tough retail markets. However, the onset of COVID-19 from March 2020 impacted Ovato's business greatly, with sales revenues in the remaining period of the year down by 41% compared to the pcp.

46 Overall, FY20 Ovato group sales were down 19.4% on the prior year, primarily due to $105.7 million in lower revenues at Ovato Australia. This was mainly from 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 NZ were $24.3 million 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.

47 Due to the impact of COVID-19, the Ovato group received $12.2 million during FY20 in government assistance through the Australian Federal government JobKeeper program and NZ Government Employer Wage Subsidy Scheme.

48 In addition, COVID-19 delayed previously announced initiatives to de-leverage the business through asset sales and/or equity recapitalisation.

Year ended 30 June 2019[18]

49 During the year ended 30 June 2019, Ovato experienced a fall in newspaper volumes, increased competition following the printing alignment between Fairfax and News Corp and softer retail conditions than expected, the combination of which negatively impacted on revenues.

50 In addition, repositioning and rebranding of the company to Ovato (from PMP Limited) was undertaken during the 2019 fiscal year.

[17] Source: Ovato FY20 Investor presentation; Ovato FY20 Annual Report, pages 31 and 55.

[18] Source: Ovato FY19 Investor presentation.

Statement of financial position

51 The statement of financial position of Ovato as at 31 December 2020 is set out below:

Ovato – Statement of financial position[1]	31 Dec 20 Unaudited $m
Cash and cash equivalents	39.0
Receivables	66.1
Inventories	62.2
Other[1]	26.3
Total current assets	193.7
Property, plant and equipment	80.4
Right-of-use assets[2]	51.8
Deferred tax assets	46.7
Goodwill and intangible assets	1.1
Other[3]	6.9
Total non-current assets	186.8
Total assets	380.5
Payables	127.1
Interest bearing liabilities[4]	16.7
Lease liabilities	22.1
Provisions	35.8
Total current liabilities	201.7
Interest bearing liabilities[4]	54.6
Lease liabilities	68.4
Provisions	8.6
Total non-current liabilities	131.6
Total liabilities	333.3
Net assets	47.2
Reported net tangible assets per share	$0.01

Note:

1 As at 31 December 2020, other current assets consists of cash backing ANZ guarantees and other facilities ($17.1 million), prepayments ($7.1 million) and finance lease receivables ($2 million).

2 As per AASB 16.

3 As at 31 December 2020, other non-current assets consists of finance lease receivables ($5.3 million), defined benefit plan asset ($1.2 million) and other (some $381,000).

4 Refer paragraph 52 below.

Source: Ovato Half-year Report for the period ended 31 December 2020, pages 7 and 20; Ovato Appendix 4D Half-year Financial Statements 31 December 2020, page 2.

Rounding differences exist.

Interest bearing liabilities

52 The interest bearing liabilities of Ovato as at 31 December 2020 are set out below:

Ovato – Interest bearing liabilities	31 Dec 20 Unaudited $m
Secured	
Chattel mortgage facility: $A(1)	3.1
Equipment financing: repayable in Euros(2)	6.4
Equipment financing: $A(3)	8.5
Prepaid financing costs	(1.2)
Total current interest bearing liabilities	16.7
Secured	
Chattel mortgage facility: $A(1)	13.6
Equipment financing: $A	8.5
Receivables financing: $A(4)	18.7
Corporate bond: $A(5)	15.0
Prepaid financing costs	(1.1)
Total non-current interest bearing liabilities	54.6
Total interest bearing liabilities	71.3

Note:

1 On 22 December 2020, Ovato entered into a new $17 million secured chattel mortgage debt facility with Scottish Pacific. The security is supported by a first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and NZ. The facility has a maturity date of December 2023.

2 Ovato entered into a €17 million export financing loan agreement in February 2013, secured against an offset rotary press. As at 31 December 2020, this loan was fully drawn and had a balance of €4.0 million. This facility has a maturity date of 30 September 2021 with semi-annual amortisations. The lender is Commerzbank AG. The facility is subject to the warranties and conditions of the agreement during the term of it.

3 Ovato entered into an Australian dollar floating rate equipment financing bank loan agreement in April 2019, secured against an offset rotary press. As at 31 December 2020, this loan was drawn to A$16.9 million. This facility has a maturity date of 7 July 2023 with semi-annual amortisations. The lender is Commerzbank AG.

4 Ovato entered into a $50 million receivables financing facility with Scottish Pacific on 5 August 2020. As at 31 December 2020, this loan was drawn to $18.7 million which represented the amount of receivables able to be sold into the facility at that date. This facility has a maturity date of 4 August 2023.

5 Ovato issued a secured A$40 million corporate bond on 22 November 2018 with a maturity date of 22 November 2022. The bond principal amount outstanding was reduced from A$40 million to A$15 million on 16 December 2020 via a bond holder vote. The bond holders also consented to the removal of the security securing the notes and the removal of the amortisation of the principal outstanding under the notes. These amendments to the notes were implemented on 22 December 2020. The bond holders also resolved to seek the approval of the shareholders of Ovato, at an extraordinary general meeting, to convert the notes balance of A$15 million to ordinary shares in Ovato. The Extraordinary General Meeting was held on 19 March 2021 at which the resolution was passed.

Source: Ovato Half-year Report for the period ended 31 December 2020, pages 21 and 22.
Rounding differences exist.

Net debt

53 As at 31 December 2020, Ovato's net debt[19] of $34.7 million[20]:

(a) was better than the previous provided guidance of $45 million due to stronger than expected debtor collections in late December (which is a favourable timing variance)

(b) was $56.2 million below December 2019 levels of $90.9 million (and $38.2 million lower than June 2020) due to the impact of the restructure discussed in paragraph 42 above.

Statement of cash flows

54 The statement of cash flows of Ovato for the six months to 31 December 2020 is summarised below:

Ovato – Statement of cash flows	
Year ended	**6 mths to 31 Dec 20 Unaudited $m**
Cash flows from operating activities	
Receipts from customers	428.2
Payments to suppliers and employees	(434.4)
Government grants received	20.4
Fee for bond holder consent to forgive corporate bond debt	(0.2)
Interest received	0.5
Interest and other costs of finance paid	(5.6)
Interest expense of lease liabilities	(4.6)
Net cash inflow from operating activities	4.3
Cash flows from investing activities	
Payments for property, plant and equipment	0.2
Cash funds given up to liquidator under the scheme of arrangement	(2.0)
Receipts from subleases, excluding the financing component	0.8
Net cash outflow from investing activities	(1.3)
Net cash outflow (before financing activities)	3.0
Cash flows from financing activities	
Repayments of lease liabilities	(11.8)
Cash backing ANZ guarantees and other facilities	(17.1)
Repayment of borrowings	(10.9)
Proceeds from borrowings	20.7
Proceeds from share issue net of transaction costs	39.0
Net cash inflow from financing activities	19.8
Net increase / (decrease) in cash and cash equivalents	22.8
Cash and cash equivalents at beginning of financial year	16.2
Cash and cash equivalents at end of financial year	39.0

Source: Ovato Half-year Report for the period ended 31 December 2020, page 8.

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19 Excludes lease liabilities under AASB 16.

20 Source: Ovato FY21 Half Year Results Commentary, page 2.

55 In the six months to 31 December 2020, Ovato's statutory cashflow from operations was $4.3 million, which is $22.8 million better than pcp due to favourable working capital, lower significant items and receipt of government assistance through the JobKeeper and Wage Subsidy schemes.[21]

Outlook

56 In the 1H FY21 investor presentation, management commented on the outlook noting[22]:

(a) the restructure has allowed Ovato to reduce its manufacturing footprint and fixed cost base to better match future demand

(b) the new Ovato Print Australia Enterprise Agreement allows flexibility in managing the workforce and to affordably adapt to future changing demand

(c) the company is evolving other parts of the business to take advantage of growth areas that sit well within the existing infrastructure of Ovato and which do not require material capital investment

(d) increased opportunities lie within the areas of books, packaging, retail distribution and marketing services

(e) heatset catalogue printing and residential distribution volumes are not returning to pre COVID-19 levels as quickly as expected due to lingering impacts of the pandemic.

Share capital and performance

57 As at 31 March 2021, Ovato had 12.213 billion fully paid ordinary shares on issue.[23]

Substantial shareholders

58 As at 31 March 2021, there were five substantial shareholders in Ovato (being those with a relevant interest of 5.0% or more), as shown in the following table:

Ovato – substantial shareholders (as at 31 March 2021)	No. of shares held	% of issued capital
Hannan Family	5,286,527,599	43.29
Are Media Pty Limited	2,000,000,000	16.38
Tozer and Co	1,012,500,000	8.29
Trojan Investment Management	915,000,000	7.49
FIIG Securities	668,725,000	5.48

Source: Ovato management.

21 Source: Ovato Half-year Report for the period ended 31 December 2020, page 4.

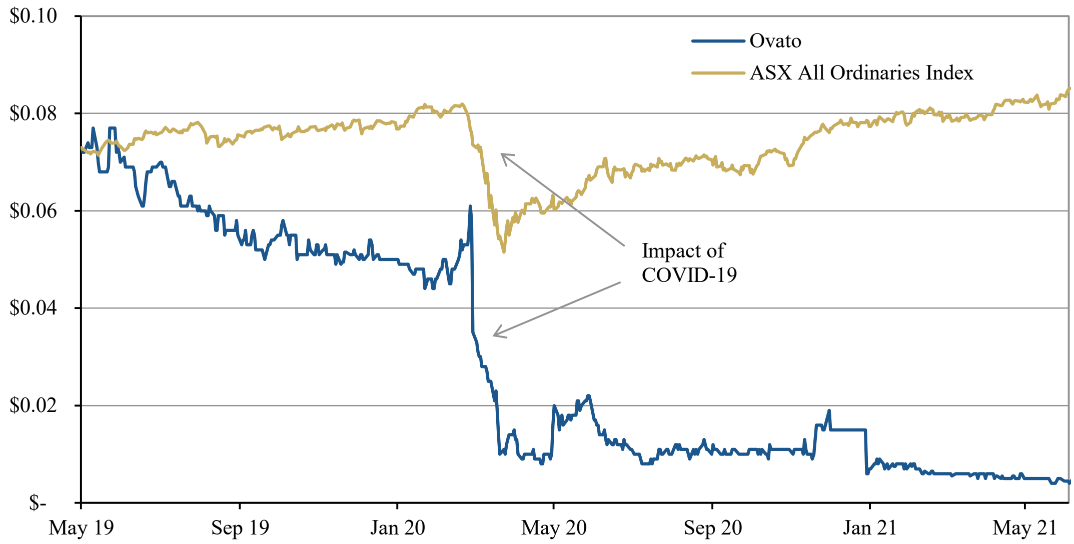
22 Source: 1H FY21 investor presentation, page 5.

23 Source: Ovato management.

Share price performance

59 The following chart illustrates the movement in the share price of Ovato from 1 May 2019 to 3 June 2021 (being the last day of trading prior to the announcement of the proposed transaction):

Ovato – share price history[1]
1 May 2019 to 3 June 2021



Note:
1 Based on closing prices. The ASX All Ordinaries Index has been rebased to Ovato's last traded price on 1 May 2019 being $0.073.
Source: Bloomberg.

60 As shown above, the onset of the COVID-19 pandemic has had a material adverse impact on the share price of Ovato.

IV Profile and valuation of ORD

Overview

Ovato Retail Distribution

61 ORD (formerly Gordon & Gotch) is regarded as Australia's oldest publication distributor, with operations dating back to 1853. The business distributes approximately 2,700 titles in Australia and 1,800 titles in NZ, and is the largest magazine distributor to retailers in both countries.

62 In addition to local titles, ORD also imports magazine titles from the United Kingdom and United States of America.

63 ORD achieved its market leading position in 2016 when it won the contract to distribute magazines for Bauer Media (Bauer), following Bauer's decision to close its Australian distribution business. At the time Bauer was the major Australian magazine publisher in Australia, publishing titles such as The Australian Women's Weekly, Woman's Day, TV Week and Take 5.

64 More recently, the business has been negatively impacted by declining magazine circulation. Further, Bauer temporarily suspended the publication of eight titles (New Weekly, OK!, Harper's Bazaar, Elle, InStyle, Men's Health, Women's Health, Good Health) in May 2020, and closed its operations in NZ, due to the COVID-19 pandemic and the related imposition of travel restrictions and declining advertising revenues. Subsequently, in July 2020 Bauer stopped publication of these eight titles.

65 Bauer (which was acquired by Mercury Capital in July 2020, and changed its name to Are Media following the sale) remains the largest customer of ORD, accounting for over 40% of expected revenue in FY21.

TheMarketHub

66 To offset the decline in magazine circulation, in November 2017 ORD launched TheMarketHub in Australia, an online business which allows retailers[24] to order other products such as stationery, games and toys and have them delivered at the same time as their magazine deliveries. Management expect this new business to generate around $8.0 million in revenue and $0.9 million in EBITDA in FY21.

Financial performance

67 The historical financial performance of ORD from FY18 to FY20, and management's forecast for FY21 (reflecting the 10 months actual results to 30 April 2021 and management's forecasts for May and June 2021) is summarised below:

24 Predominately newsagents.

ORD - summary of profitability(1), (2)	FY18 $m	FY19 $m	FY20 $m	FY21(3) $m
Revenue	71.8	67.2	60.7	60.5
EBITDA	5.2	6.7	5.6	7.5
EBIT	4.3	5.8	5.0	7.0
Key statistics				
Number of magazines distributed (millions)	226.1	210.5	177.5	150.3
Reduction in number of magazines distributed	(10.7%)	(6.9%)	(15.7%)	(15.3%)
EBIT margin	6.0%	8.6%	8.3%	11.6%

Note:

1 The FY20 and FY21 results have been adjusted by management to exclude the impact of changes required under AASB 16. In summary, the adoption of AASB 16 increased reported EBITDA as rent expenses are replaced by amortisation charges and interest expenses. However, in our view this EBITDA uplift should be excluded as it is simply an accounting treatment which has no cash flow impact or impact on the underlying profitability of ORD.

2 The results of ORD in NZ have been converted to Australian dollars using a constant exchange rate of A$1.00 = NZ$1.077 (being the average closing exchange rate in the one month period to 17 May 2021).

3 Based on the actual results for the 10 months to 30 April 2021 and management's forecasts for May and June 2021.

4 4 JobKeeper wage subsidy receipts amounted to $1.164 million in FY20 and $1.369 million in FY21. The EBITDA and EBIT figures stated above exclude the Jobkeeper wage subsidies.

Commentary on results

68 EBIT has increased since FY18 despite large declines in the number of magazines distributed. This has occurred due to the combined effect of lower magazine volumes being offset by increases in the price received per magazine distributed, cost savings being generated and new product streams utilising the existing delivery platform to newsagents (e.g. stationery, gifts and toys through TheMarketHub).

69 The NZ business experienced significantly larger revenue declines than the Australian business in FY19 and FY20. This reflected, inter-alia, the decision by Bauer NZ to close its operations in NZ from April 2020. However, the new owner (Mercury Capital) subsequently restarted some of the NZ magazines in September 2020, which is expected to result in higher revenues in NZ in FY21 compared to FY20.

70 In contrast, the revenue generated by the Australian business (excluding revenue from TheMarketHub) is expected to decline by around 12% in FY21.

Outlook

71 Consumer demand for printed magazines has declined sharply in recent years as rising internet connectivity has enabled more consumers to access similar content for free through online platforms. This trend is projected to continue, which is expected to result in continuing revenue and related profit declines over the medium to long term (notwithstanding recent improvements in reported profitability).

72 In the short term, management expect that TheMarketHub business will continue to achieve growth in revenue and profit. However, this business currently only accounts for a small proportion of total revenue.

Financial position

73 The financial position of ORD (on a cash and debt free basis) as at 30 April 2021 is set out below:

ORD – Financial position as at 30 April 2021	
	A$m
Inventory(1)	44.4
Other current assets(2)	1.4
Accounts payable and accruals	(73.1)
Current provisions	(2.0)
Net working capital deficiency	(29.3)
Property, plant and equipment	0.7
Deferred tax assets (net)	2.6
Other non-current assets	0.2
Non-current provisions	(0.2)
Net asset deficiency	(26.0)

Note:
1 Inventory represents the cost of magazines held for sale to retailers. This is not comparable to ORD's annual revenue of around $60 million because reported revenue only reflects the fee income received for distributing the magazines.
2 Principally receivables.

74 As shown above, ORD operates with a significant negative working capital position. This arises because:

(a) retailers and newsagents are charged and pay for all magazines delivered, and only receive credits for unsold magazines at a later date

(b) receivables are relatively low because amounts owed by retailers and newsagents are reduced by an allowance for returns

(c) publishers are generally paid on deferred payments terms based on an estimate of actual magazine sales to consumers (which are adjusted in future once actual sales volumes are known), resulting in a large accounts payable balance.

75 However, this negative working capital position is expected to unwind over time as magazine revenues continue to decline and the level of business activity further reduces.

DCF valuation

76 Given the forecast reduction in magazine sales volumes (and the related unwinding of net working capital (NWC) balances) we have concluded that the DCF method of valuation should be used as the primary method to value ORD.

77 Under the discounted cash flow (DCF) methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the

NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

78 Our DCF valuation is based on free cash flow projections derived by us having regard to, inter-alia, the historical financial performance of the business, industry data regarding the outlook for the business and discussions with management.

79 It should be noted that in respect of these projections:

(a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions

(b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

(d) the achievability of these projections is not warranted or guaranteed by Ovato or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Ovato and its management; and

(e) actual results may be significantly more or less favourable.

80 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments[25], capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.

81 Our free cash flow projections cover the 15 year period to 30 June 2036 (Forecast Period). The business is not expected to have any material terminal value at the end of the Forecast Period due to the impact of the ongoing decline in printed magazine sales on profitability[26].

82 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

Revenue

83 We set out below the percentage reduction in the number of magazines distributed by ORD and ORD's corresponding revenue over recent years:

Percentage reduction in business activity				
Change in:	FY18 Actual %	FY19 Actual %	FY20 Actual %	FY21 Forecast(1) %
Number of magazines distributed	(10.7)	(6.9)	(15.7)	(15.3)
Revenue excluding TheMarketHub	na	(8.1)	(13.3)	(8.4)
Revenue including TheMarketHub	(5.2)	(6.4)	(9.7)	(0.3)

25 Also calculated on an ungeared basis.

26 Our projections reflect that at the end of the Forecast Period the business is effectively operating in a break-even scenario.

Note:
1 Based on 10 months actual results to 30 April 2021 and management's forecast for May and June 2021.
na – not available.

84 Total revenue has been declining at lower rates than the decline in the number of printed magazines distributed. As stated above, this has been due to increases in revenue per magazine distributed and growth in TheMarketHub revenue. Total revenue in FY21 also benefited from the decision of Are Media (formerly Bauer) to restart the publication of some magazines in NZ.

85 However, as stated above, the outlook is for continued substantial declines in both the number of magazines distributed and related revenue in the medium to long term. Having regard to the recent declines in revenue (which have generally exceeded 5% per annum) we have adopted annual revenue declines of between 5% and 10% per annum for valuation purposes.

EBIT margins

86 As shown above, EBIT margins are expected to increase to around 11.6% in FY21 (substantially above levels achieved in FY18 to FY20). However, in our view, this EBIT margin will be difficult to sustain given the expected reduction in revenue, due to the inherent level of fixed costs in any business structure. For valuation purposes we have therefore assumed that the EBIT margin reduces gradually over the Forecast Period.

Net working capital

87 As stated above, ORD had a large negative NWC position of A$29.3 million as at 30 April 2021. Our DCF valuation reflects the proportionate unwinding of this working capital position as revenue declines. That is, our DCF valuation assumes that the size of this negative NWC position reduces over the Forecast Period on a basis consistent with the projected decline in revenue.

Capital expenditure

88 Due to the nature of the business, ORD is not particularly capital intensive. Accordingly, for valuation purposes we have assumed that capital expenditure is equal to depreciation over the Forecast Period.

Discount rate

89 We have adopted a discount rate of 13% per annum (after tax)[27]. This discount rate was derived using the capital asset pricing model (CAPM) assuming the business is 100% equity financed. We consider this funding assumption to be appropriate given the large negative working capital position and poor outlook for the business.

90 Our discount rate has been derived using the following variables:

[27] Based on our modelling, we note that the market value of the ORD shares is not particularly sensitive to the discount rate.

ORD – Discount rate		
Risk free rate (Rf)	3.0%	Assessed having regard to the current yield on 30-year Australian Government Bonds, historical averages and the risk free rate adopted by other investment analysts and valuation experts
Market risk premium (MRP)	6.5%	Consistent with empirical evidence on the risk premium demanded by equity investors over and above the risk free rate
Beta	1.5 – 1.6	High beta reflects the nature of the business (structurally challenged business in terminal decline)
Cost of equity	12.8% – 13.4%	Rf + (MRP x beta)

DCF valuation and sensitivity analysis

91 The assumptions set out above reflect the "base case" assumptions adopted in our financial model. There are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.

92 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.

93 In assessing our valuation range we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

Sensitivity table - DCF value of ORD (A$m)		Revenue decline % p.a.					
		5%	**6%**	**7%**	**8%**	**9%**	**10%**
Reduction in margin p.a.	0.50%	10.4	8.7	7.1	5.7	4.3	3.0
	0.75%	7.6	6.1	4.8	3.5	2.2	1.1
	1.00%	4.8	3.6	2.4	1.3	0.2	(0.8)

94 Having regard to the above, we have assessed the DCF value of ORD (on a cash and debt free basis) at between $1 million and $8 million.

Cross-check – implied EBIT multiple

95 Whilst our assessed value of the business may appear low in comparison to the EBIT forecast in FY21 of around $7.0 million, this principally reflects the significant NWC deficiency of ORD (which is expected to unwind as revenue declines). In this regard it should be noted that our valuation reflects the following:

ORD – composition of DCF value	Low A$m	High A$m
Value of business prior to NWC deficiency	14.0	18.0
Less present value of NWC deficiency(1)	(13.0)	(10.0)
DCF valuation of business	1.0	8.0

Note:
1 Being the present value of the unwinding of the NWC deficiency as revenue declines over the Forecast Period.

96 Our value of ORD prior to taking into account the NWC deficiency represents 2.0 to 2.6 times[28] the level of EBIT expected to be achieved in FY21. Whilst this is a low EBIT multiple, this is not unreasonable (in our view) given the outlook for significant revenue and profit declines over the Forecast Period (noting that the number of magazines distributed by the business declined by around 15% in both FY20 and FY21).

97 Whilst there are no directly comparable businesses to ORD, we note that IVE Group Limited (IVE) acquired the Salmat Marketing Solutions and Reach NZ businesses in November 2019 for approximately $25 million, which represented approximately 3.8 times the "sustainable" EBITDA at the date of acquisition (according to IVE)[29]. Salmat Marketing Solutions (at the date of acquisition) was Australia's largest catalogue distribution business, and was therefore also likely to experience significant revenue declines as the volume of printed catalogues declines. Given the subsequent impact of COVID-19 (which has accelerated the revenue declines for such businesses) and decisions by major companies (such as Coles[30]) to permanently cease distributing printed catalogues, in our view, it is also likely that the value of the Salmat Marketing Solutions business has declined since acquisition[31].

98 In our view, our assessed value of ORD is therefore reasonable and appropriate given the current negative industry outlook.

28 Being $14.0 million to $18.0 million, divided by FY21 forecast EBIT of $7.0 million.

29 At the date of acquisition, we note that the businesses acquired had positive NWC.

30 For example, Coles Supermarkets permanently ceased distributing printed catalogues from 9 September 2020 (having temporarily suspended them when the first COVID-19 lockdowns occurred).

31 This is consistent with the fact that the IVE share price is materially lower as at 25 May 2021 compared to November 2019.

V Opinion on the Proposed Sale of ORD

99 We have concluded that the Proposed Sale of ORD is fair and reasonable to Ovato shareholders not associated with the transaction. We are of this opinion for the reasons stated below.

Fairness

100 Under RG 111, the Proposed Sale of ORD is "fair" if the value of the consideration being paid by Are Media is equal to or greater than the value of ORD being sold by Ovato. This comparison is set out below:

Proposed Sale of ORD – fairness	Low $m	High $m	Mid-point $m
Value of consideration	15.0	15.0	15.0
Value of 100% of ORD[1]	1.0	8.0	4.5
Extent to which the Consideration exceeds the value of ORD	14.0	7.0	10.5

Note:
1 Refer paragraph 94 above.

101 As the consideration being paid by Are Media is significantly above our assessed valuation range for ORD on a 100% controlling interest basis, in our opinion, the Proposed Sale of ORD is "fair" to Ovato shareholders not associated with the transaction when assessed based on the guidelines set out in RG 111.

102 We have been advised that the indicated significant difference between our assessed stand-alone value of ORD and the consideration to be paid by Are Media reflects (in part) the strategic value of ORD to Are Media, which (as noted above) is the major customer of ORD.

Reasonableness

103 Pursuant to RG 111, a transaction is "reasonable" if it is "fair". Consequently, in our opinion, the Proposed Sale of ORD is both "fair" and "reasonable".

Other matters

104 In addition, we note that the Proposed Sale of ORD will:

(a) improve the reported financial position of Ovato as a result of Are Media taking over the obligation to discharge the net working capital liabilities of ORD of some $27 million[32]

(b) allow Ovato to reduce its net debt by around $15 million (at least in the short term[33])

(c) allow Ovato to focus on its core printing business.

32 The parties have agreed that a normal level of working capital is negative $27 million (which was based on an analysis of the average working capital position over the 12 months to 30 April 2021 and earlier periods).

33 We understand that the sale proceeds will ultimately be used to restructure the core printing business to improve profitability.

105 Whilst we note that Ovato's printing business is currently unprofitable, we understand that the proceeds of the ORD sale will be used to provide additional capital to restructure and therefore improve the profitability of the core printing business. Following implementation of these initiatives, Ovato management expect that the printing business will become profitable on what is expected to be a sustainable basis.

VI Opinion on the Loan

Background

106 As stated in Section I above, in connection with the Proposed Sale of ORD, Are Media may lend up to $4.8 million[34] (Loan) to Ovato. In this regard we understand that Are Media are under no obligation to make the Loan, but may choose to do so.

Opinion

107 As stated above, the Loan (if advanced) is being provided in advance of the completion of the acquisition of ORD. The key terms of the Loan are set out in Section I.

108 Importantly, the Loan is being made on an interest-free basis, and no facility or other fees are being charged by Are Media in connection with the provision of the Loan.

109 Accordingly, in our opinion, the terms of the Loan are fair and reasonable to Ovato shareholders other than Are Media.

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[34] Consisting of an existing loan of $2.3 million with, subject to shareholder approval, a $2.5 million increase in the facility limit of the loan agreement under which that loan was made.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of this IER in connection with the proposed transaction.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account shareholders' personal objectives, financial situation or needs.

Fees, commissions and other benefits we may receive

7 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $40,000 plus GST.

8 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

9 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

Appendix A

10 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

11 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

12 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

13 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 Independent Expert's Reports to shareholders.

2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 27 years and 35 years' experience respectively in the provision of valuation advice.

Declarations

3 This report has been prepared at the request of the Independent Directors of Ovato. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Sale of ORD is fair and reasonable to Ovato non-associated shareholders.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the proposed transaction. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Ovato agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Ovato which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Appendix C

Glossary

Abbreviation	Definition
AASB	Australian Accounting Standards Board
AASB 16	AASB 16 – *Leases*
AFCA	Australian Financial Complaints Authority
Are Media	Are Media Limited
Are Media Holdco	Are Media Holdco Pty Limited
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Bauer	Bauer Media
CAPM	Capital asset pricing model
Corporations Act	*Corporations Act 2001* (Cth)
DCF	Discounted cash flow
Forecast Period	15 year period ending 30 June 2036
FSG	Financial Services Guide
FY	Financial year
GST	Goods and services tax
Hannan Family	The Hannan family, who collectively hold 43.4% in Ovato (as at 4 June 2021)
H1	Six months to 31 December
IER	Independent expert's report
IVE	IVE Group Limited
LEA	Lonergan Edwards & Associates Limited
Loan	Are Media may lend up to $4.8 million to Ovato in connection with the Proposed Sale of ORD, consisting of an existing loan of $2.3 million with, subject to shareholder approval, a $2.5 million increase in the facility limit of the loan agreement under which that loan was made
MRP	Market risk premium
NWC	Net working capital
OIO	Overseas Investment Office, the New Zealand government agency responsible for regulating foreign direct investment into New Zealand
ORD	Ovato Retail Distribution Pty Ltd and Ovato Retail Distribution NZ Limited, together
Ovato or the Company	Ovato Limited
pcp	Prior corresponding period
Proposed Sale of ORD	Refer paragraph 1 of this report
RG 111	Regulatory Guide 111 – *Content of expert reports*

OVATO LIMITED
ABN 39 050 148 644

OVT

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FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Need assistance?

Phone:
1300 556 161 (within Australia)
+61 3 9415 4000 (outside Australia)

Online:
www.investorcentre.com/contact

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **XX:XX am (AEST) on Day/Month 2021.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes [illegible]. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative
If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate “Appointment of Corporate Representative”. A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 999999

SRN/HIN: I9999999999

PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 IND

Proxy Form

Please mark X to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Ovato Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Ovato Limited to be held virtually via an online platform at https://web.lumiagm.com with meeting ID xxxxxxxxx on {insert date} 2021, at {insert time} am (AEST) and at any adjournment or postponement of that meeting.

Step 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Item 1	Approval of the Share Sale Transaction			
Item 2	Approval of the Security Increase			

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s)

This section must be completed.

Individual or Securityholder 1	Securityholder 2	Securityholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

Mobile Number

Email Address

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

OVT 999999A

Computershare