

ASX Announcement

17 February 2023

AVADA Group Limited — Half Yearly Reporting for December 2022

In progressing the finalisation of its half yearly financial statements for December 2022, for release later this month, AVADA Group Limited (ASX:AVD) ('AVADA', 'the Company' or 'the Group') has been reviewing overall impacts on operations, including engaging with the Commonwealth Bank of Australia ('Bank') in respect of the Company's existing facility arrangements as below.

During the period, AVADA's operations and results continued to be impacted by:

- the Company's NSW operations continued to be adversely impacted during the second half of calendar 2022 by the 'double La Niña' event, with 2022 the wettest year on record in Sydney;
- underperformance of The Traffic Marshal business following a period of management change and transition of the management structure; and
- an unexpected decline in debtor recovery in the second half of December 2022 due to customer shutdowns and process delays. This position was essentially related to timing and has been rectified through January.

Progressing finalisation of half-yearly accounts has confirmed that under the terms and conditions applying to the Company's bank facilities, a financial covenant, requiring the Company to maintain a defined net leverage ratio, has been breached (to the extent of less than 10% of covenant levels) principally due to the delay in debtor recovery.

The Bank, having now reviewed the draft half yearly accounts, but particularly the nature and extent of the covenant breach, has confirmed in writing its position not to exercise its rights relating to the breach and has waived its rights for future actions relating to the Company's financial reporting period for December 2022. As is usual, the Bank reserves the right to exercise its rights relating to any breach/es of the facility arrangements in the future.

Notwithstanding the waiver from the Bank, the effect of the breach requires the Company, in accordance with accounting standards, to reflect the debt owing to the Bank to be reclassified as a current liability, rather than non-current liability, at 31 December 2022, along with the supporting disclosure.

However, as a result of the waiver, the debts owing to the Bank will be reclassified as non-current liabilities for balance sheet dates subsequent to the waiver (including FY23) and subject to future covenant testing in accordance with the facility agreement.

This accounting treatment has not changed the terms and conditions of the facility arrangements with the Bank, including in relation to any schedule for repayment of the facility.

Further, in progressing with the half yearly financial statements, the Company has identified indicators of impairment in respect of The Traffic Marshal, which was acquired on 15 December 2021. The Traffic Marshal operates in the Greater Sydney Area and predominantly on project work which is more susceptible to weather impacts. The business has also been impacted by changes in the management structure.

As part of the Company's focus on improvement in performance and given the underperformance of the Traffic Marshal, the business recently transitioned to a centralised operating and management structure within the New South Wales operations.

An impairment expense in the range of \$2.5m to \$3m (unaudited) in respect of the goodwill and intangible assets of The Traffic Marshal will be recorded in half-yearly accounts, for the six months to 31 December 2022.

More generally, the Company has traded above 2022 levels in the second half of the financial year to date. Directors remain confident in both the financial and growth prospects for the Company.

About AVADA Group Limited

AVADA is Australia's largest listed integrated traffic management provider, with established operations throughout Queensland, NSW and Victoria servicing major public and private sector clients.

With an extensive network of 27 Depots, more than 900 vehicles and 1,900 dedicated employees the Group is well positioned in the integrated traffic management and associated civil sectors.

Visit us at avadagroup.com.au

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