ASX RELEASE

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ASX RELEASE

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SPICERS LIMITED 2018 FULL YEAR RESULTS

Spicers reports earnings and cash flows substantially up on prior year

- Statutory profit after tax was $3.5 million for the full year ended 30 June 2018 (FY2018), 107.5% higher than the prior corresponding period (pcp).
- Underlying EBIT(1) for FY2018 was $8.0m, up $3.1m (63.1%) on pcp.
- Net cash inflow from operating activities was $17.3m in FY2018, an improvement of $11.0m on pcp.

Key features of the FY2018 results:

- Net sales revenue of $384.0m returned to growth, 0.9% higher than pcp. Print & Packaging and Sign & Display revenue streams both grew, at 0.5% and 2.6% respectively.
- All Regional Segments delivered local currency underlying EBIT(1) results ahead of pcp, via a mix of healthy trading results in key product categories and broad reductions in operating costs.
- Australian FY2018 underlying EBIT(1) of $4.2m was 80.6% higher than pcp, an overall result driven by improved trading in key product categories.
- Restructuring in the Australian organisation (including Corporate) delivered labour cost savings of $2.2m in FY2018, up on previous expectations.
- Australia's FY2018 result included a loss on building cladding projects of $1.9m. This category has been exited with the total estimated contract loss on the final project booked in the FY2018 result.
- New Zealand delivered FY2018 underlying EBIT(1) of $7.4m, up 1.2% in local currency terms, with solid profitability across product categories and tight control of trading expenses contributing to this result.
- Asia's FY2018 underlying EBIT(1) of $2.2m was 18.1% higher than pcp in local currency terms, driven by strong sales in Print & Packaging categories.
- Underlying Corporate costs were $0.9m (13.6%) lower than pcp, with savings realised across all key expense areas.
- Profit after tax from continuing operations was $3.6m, significantly up on pcp by $3.2m, with a similar level of restructuring costs, $2.0m, in both periods.
- A small loss of $0.1m on discontinued operations was recorded in FY2018.
- FY2018 net cash inflow from operating activities was $17.3m, substantially up 174.5% on pcp, driven by a sharp reduction in net working capital levels.
- The 'net cash' position at 30 June 2018 was $45.1m, with no debt drawn.

(1) Non-IFRS measure – refer Appendix 2

Commenting on the results, Spicers' Chief Executive Officer David Martin said:

"These pleasing results for FY2018, with overall earnings and cash flows strongly improved on prior year, reflect the ongoing drive of our people across the business to deliver on our strategic priorities.

Our focus on customer and market engagement has driven improved trading results across our key product revenue streams, particularly in Australia and Asia. Our New Zealand business continues to deliver solid returns in challenging market conditions.

We have accelerated cost savings in our Australian organisation from the streamlining of operational and administrative activities. Our New Zealand business also delivered significant reductions in trading expenses, particularly from the successful relocation of its Auckland premises during the period.

Our sharp management focus on supply chain efficiency and working capital has generated strong operating cash inflows in FY2018, particularly in the second-half. Product portfolio breadth and inventory levels continue to be tightly managed, while overall debtor and creditor payment terms have both been improved in the period.

These strong FY2018 results reflect a business delivering on its promises to customers and shareholders. Going forward, we will continue to use our structured approach to portfolio and product segmentation to generate profitable revenue growth and identify new growth opportunities. We're driven to continue to optimise operating returns and cash flows, across our Print & Packaging and Sign & Display product categories."

Jonathan Trollip, the Chairman of Spicers, added:

"I am pleased that Spicers has been able to deliver substantial improvements in earnings and cash flows in FY2018, and thank our people for their commitment in achieving this. Following these strong results, the Board is reviewing options to recommence some form of distribution to shareholders, and will update the market accordingly when a decision is made."

For further information contact:

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About Spicers Limited (SRS)
Spicers is a dynamic and solutions-focused distribution business with an extensive network across Australia, New Zealand, and Asia. We offer a full suite of products and services to our customers, incorporating commercial print, digital media, label & packaging, industrial packaging, sign & display consumables and hardware, and architectural offerings.

(1) Non-IFRS measure – refer Appendix 2

RESULTS FOR THE YEAR ENDED 30 JUNE 2018

Spicers Limited has reported a statutory profit after tax of $3.5 million and group underlying EBIT[1] of $8.0 million for the year ended 30 June 2018. All amounts are stated in Australian Dollars ($), unless noted otherwise.

Results Summary		Actual 2018	Actual 2017
Net sales revenue	$000	384,044	380,666
Earnings before interest and tax - continuing	$000	5,924	2,822
Underlying earnings before interest and tax [1]	$000	7,959	4,880
Profit before tax - continuing	$000	5,797	2,467
Profit after income tax - continuing	$000	3,578	387
(Loss)/profit after income tax - discontinued	$000	(67)	1,305
Statutory profit after tax	$000	3,511	1,692
Net working capital [1]	$000	75,391	86,099
Average working capital/sales revenue [1]	%	22.9	24.2
Net cash flow from operating activities	$000	17,255	6,287
Cash conversion - continuing [1]	%	192.0	108.8
Basic earnings per share [2]	cps	0.2	0.2
Dividend per ordinary share	cps	nil	nil
FTEs - continuing		401	430

The following table shows net sales revenue and underlying EBIT[1] by operating segment for the year ended 30 June 2018.

Operating Summary		Net Sales Revenue 2018	Net Sales Revenue 2017	Underlying EBIT [1] 2018	Underlying EBIT [1] 2017
Segment:					
Australia	$000	204,404	201,816	4,236	2,345
New Zealand	$000	93,451	101,058	7,387	7,477
Asia	$000	86,651	78,035	2,205	1,851
Corporate / eliminations	$000	(462)	(243)	(5,869)	(6,793)
Total continuing operations	**$000**	**384,044**	**380,666**	**7,959**	**4,880**
Discontinued operations	**$000**	-	-		
Total	**$000**	**384,044**	**380,666**		

(1) Non-IFRS measure – refer Appendix 2
(2) FY2017 basic earnings per share included in the 'Results Summary' table exclude an exceptional, non-cash, gain of $209 million, taken directly to retained earnings as a transaction with owners, that resulted from the Company's acquisition of SPS Units as part of a Trust Scheme to simplify the Company's capital structure. Statutory reported basic EPS including this exceptional accounting gain was 30.9 cents.

GROUP OPERATING PERFORMANCE

Revenue

Net sales revenue of $384.0m was $3.4m (0.9%) higher than pcp.

The chart below gives a breakdown of the Group's net sales revenue by product portfolio categorisation (refer to the 'Operating Performance by Regional Segment' section for commentary by regional operating business):

Net Sales Revenue		2018	2017	% Change
Print & Packaging	$000	304,712	303,320	0.5
Sign & Display	$000	79,332	77,346	2.6
Total revenue - continuing	**$000**	**384,044**	**380,666**	**0.9**

Net sales revenue from Print & Packaging categories was 0.5% up on pcp. This represents a turnaround on prior periods, with strong market engagement and pricing strategies across all product portfolios driving an improvement.

Sales revenue from Sign & Display categories continued to grow, up 2.6% on pcp. Media and consumables sales revenue grew solidly in both Australia and New Zealand, up by 6.9% on pcp. Revenue from hardware sales, which provide lower profit returns for Spicers than media and consumables, was behind pcp in challenging market conditions.

A return to growth in overall net sales revenue represents progress in comparison to prior years, with management focus on customer engagement and price management strategies within product portfolio categories driving this improved performance.

Earnings and Statutory Profit

Group underlying EBIT[1] of $8.0m was significantly up by 63.1% on pcp. All regional operating businesses delivered results ahead of pcp in local currency terms, driven by a combination of solid trading results across product portfolios and substantial operating cost reductions.

Restructuring in the Australian organisation (including Corporate) delivered labour cost savings of $2.2m in FY2018, ahead of previously announced expectations. Further cost reductions were also realised from initiatives across a broad range of expense areas. For example, the 'less than marketable parcel' share buy-back completed in January 2018 led to reduced shareholder numbers and registry related costs.

As a result, underlying corporate costs for FY2018 were $0.9m (13.6%) less than pcp. Many of the initiatives to streamline corporate activities and expenses were delivered in the second-half of FY2018, and are therefore expected to lead to lower 'year-on-year' underlying corporate costs in FY2019 as full-year cost savings are realised.

(1) Non-IFRS measure – refer Appendix 2

Continuing profit after tax for FY2018 was $3.6m, a substantial improvement of $3.2m on pcp. A similar level of restructuring costs, $2.0m, were incurred in both periods.

A small loss after tax on discontinued operations of $0.1m arose in FY2018. Costs from foreign exchange movements on overseas loan balances were offset by the reversal of a tax provision following the close-out of a tax audit on the Company's previous Canadian operations. A profit after tax from discontinued operations of $1.3m was recorded in the pcp, caused by the 'one-off' final settlement of obligations in Germany and the reversal of a related provision.

Statutory profit after tax for FY2018 was $3.5m compared to $1.7m in the pcp. This significant increase of 107.5% was driven by the improved earnings of continuing operations in FY2018.

Cash Flow and Working Capital

Net cash inflow from operating activities for FY2018 was $17.3m, representing a substantial increase of $11.0m (174.5%) compared to pcp.

This was driven by a combination of higher operational cash inflows from the improved earnings of continuing operations, and strong cash inflows from a sharp reduction in net working capital balances.

As a result, the Group's cash conversion(1) ratio for FY2018 was an impressive 192.0%, versus 108.8% in the pcp.

Net working capital(1) balances were $10.7m lower than pcp. Inventory levels and ageing continue to be tightly managed, with product portfolio ranges subject to ongoing reviews, which led to a reduction in inventory balances of $8.7m compared to pcp. Debtor and creditor 'days' payment terms also improved in comparison to pcp.

The Group's average working capital to sales revenue(1) ratio for FY2018 was thus improved to 22.9%, 130 basis points lower than pcp.

(1) Non-IFRS measure – refer Appendix 2

OPERATING PERFORMANCE BY REGIONAL SEGMENT

Australia

		2018	2017	% Change
Net sales revenue	$000	204,404	201,816	1.3
Profit before interest and tax	$000	3,217	1,533	109.8
Underlying EBIT (1)	$000	4,236	2,345	80.6
Underlying EBIT/sales revenue (1)	%	2.1	1.2	90 bpts
Expense/sales revenue	%	20.5	21.2	(70) bpts
Net working capital (1)	$000	43,985	55,387	(20.6)
Average working capital/sales revenue (1)	%	25.1	27.4	(230) bpts

Australia's FY2018 sales revenue was 1.3% higher than pcp. Print & Packaging revenue was marginally ahead of pcp. Effective customer service, and tight control of pricing in an environment of rising product input costs, contributed to this improvement in comparison to the declines of previous periods.

Sales revenue from Sign & Display media and consumables categories grew vigorously, driven by strong market engagement with customers across all Australian States. Revenue from hardware sales was down on pcp in a challenging market environment.

Australian underlying EBIT(1) of $4.2m was up 80.6% on pcp, due to a combination of higher gross profits across Print & Packaging and Sign & Display categories and reduced operating costs.

The Australian business incurred a loss of $1.9m on building cladding projects in FY2018. This category has been exited, and the total estimated contract loss on the final project has been booked in the FY2018 result. A customer bad debt of $0.5m also impacted upon Australia's FY2018 result.

Excluding costs related to building cladding projects and the customer bad debt, Australia's trading expenses were $2.0m lower than pcp. These operating cost savings were delivered via a combination of reduced labour costs from restructuring of the Australian organisation, and multiple cost reduction initiatives across other key expense areas, such as premises costs, IT, and travel.

Australia's net working capital(1) was $11.4m lower than pcp. This significant reduction was primarily due to lower inventory levels from a sharp management focus on product portfolio ranges and inventory ageing, and improvements in both debtor and creditor payment terms. Australia's FY2018 average working capital to sales revenue ratio(1) improved by 230 basis points to 25.1% as a result.

(1) Non-IFRS measure – refer Appendix 2

New Zealand

		2018	2017	% Change
Net sales revenue	NZD 000	101,338	106,940	(5.2)
Profit before interest and tax	NZD 000	7,733	7,283	6.2
Underlying EBIT (1)	NZD 000	8,010	7,912	1.2
Underlying EBIT/sales revenue (1)	%	7.9	7.4	50 bpts
Expense/sales revenue	%	17.3	17.0	30 bpts
Net working capital (1)	NZD 000	17,350	18,148	(4.4)
Average working capital/sales revenue (1)	%	19.8	19.5	30 bpts

Net sales revenue in New Zealand was 5.2% lower than pcp in flat market conditions, particularly in Print & Packaging categories.

Sign & Display media and consumables sales revenue continued to grow year-on-year, supported by a full year of revenue from the Sign Technology 'bolt-on' acquisition. Sign & Display hardware sales revenue was down on pcp, a difference caused by a significant equipment transaction in the prior year.

Underlying EBIT(1) was 1.2% higher than pcp, due to a combination of tight control of pricing, margins, and operating costs.

Trading expenses were NZ$0.7m lower than pcp. Several initiatives delivered cost reductions across key expense lines. Relocation of premises in Auckland and Wellington delivered cost savings of NZ$0.2m in FY2018, and are expected to deliver annualised cost savings of NZ$0.6m going forward.

This contributed to a solid FY2018 underlying EBIT(1) to sales ratio for New Zealand of 7.9%, up 50 basis points on pcp.

Net working capital(1) in New Zealand was NZ$0.8m lower than pcp, off a lower sales base. While New Zealand's average working capital to sales revenue ratio(1) for FY2018 increased by 30 basis point, it is still approximately 5% lower than in Australia and Asia.

(1) Non-IFRS measure – refer Appendix 2

Asia

		2018	2017	% Change
Net sales revenue	SGD 000	90,126	81,882	10.1
Profit before interest and tax	SGD 000	2,293	1,670	37.3
Underlying EBIT (1)	SGD 000	2,293	1,942	18.1
Underlying EBIT/sales revenue (1)	%	2.5	2.4	10 bpts
Expense/sales revenue	%	8.5	9.5	(100) bpts
Net working capital (1)	SGD 000	17,350	21,082	(17.7)
Average working capital/sales revenue (1)	%	24.5	26.2	(170) bpts

Asia delivered significant revenue growth of 10.1% in FY2018, primarily in Print and Packaging categories across Singapore and Malaysia.

Asia's underlying EBIT was strongly up 18.1% on pcp, continuing the trend set in recent periods. This was driven by a combination of improved pricing and margins, coupled with ongoing tight control of operating costs.

Asia's net working capital(1) was SG$3.7m less than pcp. Inventory levels were down on pcp, due to lower goods in transit. Debtor and creditor payment terms also improved. As a result, Asia's FY2018 average working capital to sales revenue ratio(1) of 24.5% was 170 basis points lower than pcp.

(1) Non-IFRS measure – refer Appendix 2

FINANCIAL POSITION

Consolidated Balance Sheet

Balance Sheet		As at 30 June 2018	As at 30 June 2017
Current assets	$000	197,957	195,801
Non-current assets	$000	37,492	37,746
Total assets	$000	235,449	233,547
Current liabilities	$000	97,974	99,052
Non-current liabilities	$000	546	571
Total liabilities	$000	98,520	99,623
Shareholders' equity	**$000**	**136,929**	**133,924**
Net cash	$000	45,090	31,841
Funds employed (net assets - net cash)	$000	91,839	102,083

Shareholders equity / net assets of $136.9m at 30 June 2018 was $3.0m higher than pcp. An increase from the FY2018 statutory profit of $3.5m, offset by share buy-back costs of $1.8m on the 'less than marketable parcel' project completed in January 2018, represented the key movements in shareholders equity during the period.

Funds employed at 30 June 2018 were $10.2m less than pcp, due to the higher 'net cash' balance at June 2018.

(1) Non-IFRS measure – refer Appendix 2

Cash Flow and Working Capital

Cash flow	Continu-ing $000	Discont-inued $000	2018 $000	2017 $000
Operating receipts and payments (excluding working capital movement and restructuring)	**8,353**	**(366)**	**7,987**	**5,886**
Working capital movement	13,989	-	13,989	3,873
Restructuring	(2,163)	-	(2,163)	(860)
Net interest paid	(19)	2	(17)	(467)
Income taxes paid	(2,541)	-	(2,541)	(2,145)
Net cash flow from operating activities	**17,619**	**(364)**	**17,255**	**6,287**
Capital expenditure	(1,334)	-	(1,334)	(877)
Net payments for acquisition of assets & businesses	(795)	-	(795)	-
Net proceeds/(payments) from sale of assets & businesses	31	576	607	(283)
Net cash flow before financing activities	**15,521**	**212**	**15,733**	**5,127**

Net cash inflow from operating activities for FY2018 was $17.3m, compared to $6.3m in the pcp.

Net cash inflow from operating activities for continuing operations was $17.6m, with working capital movements contributing $14.0m to this cash inflow. Inventory balances reduced by $8.7m compared to pcp, while debtor and creditor payment terms were improved across the Group.

Restructuring payments of $2.2m were made in FY2018. These related primarily to restructuring in the Australian organisation, with some payments also made in relation to warehouse relocations in New Zealand.

Capital expenditure of $1.3m in FY2018 primarily related to leasehold improvement and fit-out costs on warehouse relocations in New Zealand. Payments for acquisition of assets and businesses related to the Sign Technology acquisition in New Zealand.

Receipts and payments for discontinued operations offset to contribute to a net cash inflow of $212k in FY2018.

(1) Non-IFRS measure – refer Appendix 2

Debt, Interest, and Funding

Cash / (Debt)		Jun 2018	Jun 2017	% Change v Actual
Gross debt	$000	-	(2,042)	100.0
Cash and cash equivalents	$000	41,135	29,928	37.4
Short term deposits	$000	3,955	3,955	-
Net Cash	**$000**	**45,090**	**31,841**	**41.6**

Interest expense		2018	2017	% Change v Actual
Net interest - continuing	$000	127	355	(64.2)
Net interest - discontinued	$000	(1)	1	(200.0)
Net interest expense	**$000**	**126**	**356**	**(64.6)**

Spicers reported a net cash position of $45.1m, up 41.6% on June 2017. No gross debt was drawn at 30 June 2018.

Typically, 30 June represents one of the highest points in the Company's annual cash cycle, due to factors such as seasonal patterns in inventory ordering and creditor payments, and strong debtor collections in the run up to year-end. Mid-month cash usage is also often significantly higher than end of month positions, due to timings of customer receipts and supplier payments through the month.

Net interest expense for FY2018 was 64.6% lower than pcp, due to significantly lower levels of average debt drawn during the period.

The Group's primary financing facilities are in Australia and New Zealand. Both facilities have significant liquidity capacity available and maturity dates that do not fall due until October 2019 (New Zealand) and November 2019 (Australia) respectively.

Dividends and Distributions

No dividend is to be declared or paid on the Spicers Ordinary Shares for the year ended 30 June 2018.

Following the positive FY2018 results, the Board is reviewing options to recommence some form of distribution to shareholders, and will update the market accordingly when a decision is made.

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(1) Non-IFRS measure – refer Appendix 2

APPENDIX 1

The following table shows statutory earnings in Australian dollars.

For the year ended 30 June	2018 $000	2017 $000
Group revenue	**384,044**	**380,666**
Earnings:		
Australia	4,236	2,345
New Zealand	7,387	7,477
Asia	2,205	1,851
Corporate / eliminations	(5,869)	(6,793)
Total continuing operations	7,959	4,880
Discontinued operations	(751)	(938)
Profit before interest, tax and significant items	**7,208**	**3,942**
Significant items (pre-tax)	(2,512)	140
Profit before interest and tax	**4,696**	**4,082**
Net interest	(126)	(356)
Profit before tax	4,570	3,726
Tax relating to pre-significant items	(1,131)	(2,206)
Tax relating to significant items	72	172
Tax expense	(1,059)	(2,034)
Statutory profit for the period	**3,511**	**1,692**

The following table is a reconciliation of underlying EBIT[(1)].

For the year ended 30 June	2018 $000	2017 $000
Statutory profit for the period, after tax	**3,511**	**1,692**
Adjust for following (gains)/losses included in statutory profit:		
Loss/(profit) after tax - discontinued	67	(1,305)
Tax expense - continuing	2,219	2,080
Net interest - continuing	127	355
Earnings before interest and tax - continuing	**5,924**	**2,822**
Adjust for continuing significant items:		
Restructuring costs	2,035	2,058
Underlying EBIT [(1)]	**7,959**	**4,880**

(1) Non-IFRS measure – refer Appendix 2

APPENDIX 2

Non-IFRS information

Spicers financial results are reported under International Financial Reporting Standards (IFRS). The tables and analysis provided in this document also include certain non-IFRS measures, including underlying Earnings Before Interest and Tax (EBIT). These measures are presented to enable understanding of the underlying performance of the Company without non-trading items. Non-IFRS measures have not been subject to audit or review.

The non-IFRS measures used throughout this document are defined as:

- Underlying Earnings Before Interest and Tax (EBIT): statutory profit/(loss) before interest, tax, impairment of non-current assets, restructuring, and results from discontinued operations.
- Net Working Capital: comprises of the sum of trading operations receivables and inventories less payables as at the relevant date.
- Average Working Capital: comprises an average value calculated from monthly Net Working Capital balances in the relevant reporting period.
- Average Working Capital/Sales Revenue: comprises Average Working Capital divided by an annualised sales revenue value extrapolated from sales revenue for the relevant reporting period.
- Cash conversion – continuing percentage: Net cash flow from Operating Activities - continuing operations expressed as a percentage of Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).