ASX RELEASE

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ASX RELEASE

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2018 ANNUAL GENERAL MEETING - ADDRESSES

CHAIRMAN'S ADDRESS

I extend a very warm welcome to all Spicers Limited ('Spicers' or 'the Company') shareholders present here today, and also those reading this address online via our ASX announcement.

I am Jonathan Trollip, Chairman of your Company. On behalf of the Board, I am pleased to have this opportunity to update you on the Company's progress over the past year.

Spicers Chief Executive Officer, David Martin, will cover the 2018 Financial Year ('FY2018') financial results, strategic progress in the business, and provide an update on trading in the first 4 months of the 2019 Financial Year ('FY2019') in his address which follows mine. I will focus on other key events and developments for the Company over the past year.

Sale of Asian Operations

I will start with the sale of the Company's Asian Operations, consisting of businesses in Singapore and Malaysia and a representative office in Vietnam as announced to shareholders on 26 September 2018.

As noted in that announcement, completion of this transaction is subject to clearance by the Competition and Consumer Commission of Singapore ('CCCS'). The CCCS is progressing with its review and is expected to report by the end of November 2018. We will inform shareholders accordingly.

Completion of this transaction will realise 'Enterprise Value' proceeds of SGD 15 million for the Company. In addition, Spicers will receive as deferred consideration, the net proceeds from the planned sale of the property owned by the Singapore operating business. Activities to market this property for sale are progressing satisfactorily.

The transaction also allows for Spicers to retain the 'net cash' balances in these Asian operations on completion of the transaction. Subject to any customary completion adjustments, these retained cash balances are currently expected to be approximately SGD 7 million.

This all adds up to an aggregate return of funds to the Spicers Group in excess of $30 million on successful completion of the sale.

We thank the team in these Asian Operations for their dedication and professionalism in continuing to deliver strong results for the business, and wish them well for an exciting future as part of another expanding Asian business.

Proposed Return of Capital to Shareholders

I will now cover the proposed return of capital to shareholders, a resolution to be voted upon later in this Meeting. It has been many years since Spicers shareholders have received a distribution from the Company, and given this, the Board is very pleased to now be able to propose this capital return. A capital reduction of $15 million would represent 0.729 cents per share, greater than 10 percent of the current Spicers share price.

This proposed capital return is linked with, and conditional on, the successful completion of the sale of the Company's Asian Operations. The proposed amount of the capital reduction, of up to $15 million, is consistent with the 'Enterprise Value' sale proceeds of SGD 15 million expected from this transaction.

The proposed return of capital is also subject to the receipt of a favourable Class Ruling from the Australian Tax Office to confirm the income tax treatment of the capital return for shareholders. Importantly, the Company will seek to confirm via this tax ruling that no part of the return of capital will be treated as a dividend for Australian income tax purposes.

The capital return proposed is also subject to receipt of a waiver of ASX Listing Rule 7.25, relating to capital reductions where a Company's share price is less than 20 cents. The ASX has already provided this waiver, as announced by the Company on 17th October 2018.

Finally, if approved by shareholders, the Board will still have discretion as to the amount, of up to $15 million, and timing of the proposed return of capital. Details of the factors that may influence the exercise of the Board's discretion, including the operational and financial circumstances of the Company following the completion of the sale of the Asian Operations, are listed in the Explanatory Notes of the Notice of Meeting for this 2018 AGM.

It is important to note that the Board has confidence that, following this proposed capital return, the Company will retain sufficient financial capacity to support its operations and pursue its growth strategies. The proposed return of capital would effectively be funded by the proceeds that Spicers would receive from completion of the sale of the Asian Operations.

In conclusion, the Board believes that this proposed return of capital is in the best interests of the Company's shareholders as a whole, and would ensure that Spicers maintains an efficient capital structure without adversely affecting the ability of the Company to meet its operational and growth objectives.

Other Group-level Developments

I will turn now to other key group-level developments over the past year.

Progress has been made on several fronts in resolving legacy issues. Most significantly, as announced on 12 November 2018, Spicers has reached a settlement agreement with the Bankruptcy Trustees of PaperlinX Netherlands Holdings B.V. This settlement has extinguished legacy loan obligations, while also providing for the discharge and release of all other obligations between the parties. This removes the possibility of the Netherlands Holdings Bankruptcy Trustees bringing any residual claims against the Spicers Group.

Several other legacy related matters have also been resolved in the past year, for example legal and tax indemnities and guarantees given in PaperlinX's previous divestment of its Italian operation. Several Canadian tax audits relating to the previously owned Canadian operations were also closed, without any liability arising for the Company.

These developments have led to a steady de-risking and simplification of the Company's consolidated balance sheet, with surplus related liabilities and provisioning able to be released progressively.

While it is never possible to predict the future, as time passes and based on current knowledge, I and the Board consider it unlikely that a material future liability will arise from the Company's legacy issues. This is also reflected in the removal from the Independent Auditor's Report on the Company for FY2018 of a previous 'Emphasis of Matter' with respect to contingent liabilities.

Good progress has also been made in reducing Corporate Costs, and ongoing costs are now half of FY2016 levels. Alongside labour cost savings from downsizing of the Corporate function to reflect the smaller footprint of the Company, significant reductions in insurance and other service-provider costs have been secured. Share registry related costs have been significantly reduced, in large part due to the successful completion of a less than marketable parcels share buy-back early in 2018, which took shareholder numbers down from over 35,000 to under 5,000.

There is a constructive working relationship between the Board and the executive Management team led by CEO David Martin, and including CFO Damien Power, Company Secretary Michael Clark, and Group Strategy Manager David Stelling. I give my thanks to them for their extensive efforts. I acknowledge and thank my fellow Board members for their contributions. Finally, and most importantly, thank you to all staff within the Spicers business for their focus and commitment in delivering substantially improved results over the past year.

Despite the substantial progress of this past year, there is still no room for complacency. The Board therefore remains very focused on working with David and his Management team to optimise all aspects of the business, including customer and market engagement, working capital management, and ongoing vigilance on operating costs.

I thank our shareholders for your continuing support, and I will now hand over to David to provide his CEO address.

CHIEF EXECUTIVE OFFICER'S ADDRESS

Thank you Jonathan, and good morning ladies and gentlemen. This morning I will provide an overview of the Spicers business, then cover the Company's results for the 2018 financial year and strategic progress over the past 3 years, before moving on to provide my comments on trading in the first few months of FY2019. Before I begin, I would like to personally thank the members of the Board, and especially our Chairman, for their focus and efforts in supporting our key business initiatives. Our clear joint purpose is to maximise profit returns and free cash flows for Spicers.

Our Business

Our Spicers business is a dynamic, and broad-based, distribution business. We are focused on delivering excellent service and solutions to our customers for our wide range of products. We now operate across multiple categories in the Print & Packaging, Sign & Display and Architectural market sectors.

Our vision is to be the business partner of choice for our customers, by delivering on our promises, every day.

Our Values

Our values:

- Accountability;
- Integrity;
- To be collaborative; and
- To be dynamic.

are at the core of everything we do as a team. These values have helped us deliver on our business promises over the past two years, and are vital in continuing to shape our strategies going forward.

Community Engagement

Community engagement activities are an important element of these values, and demonstrate our integrity as a business.

Spicers is proud to act as the key sponsor for 'Club Respect', a new initiative created by the Victorian Women's Trust and Nirodah to reduce domestic violence by building a positive environment within sporting clubs and preventing violent, abusive or disrespectful behaviour.

Spicers is also proud to support Foodbank Australia, by participating in ‘Food Drive’ initiatives to donate surplus food supplies. We have also recently supported the ‘Rapid Response Team’ in Tasmania, to support drought relief in mainland Australia.

All of these are worthy causes, with the capability of driving real change and are directly aligned with our values.

Our Regional Business Operations

We have strong continuing regional businesses of scale in both Australia and New Zealand, with extensive distribution networks covering both countries.

These operations generate annual revenues of approximately $300 million, with 300 employees spread across 11 locations. Our Australian and New Zealand businesses serve customers across a broad range of categories, with strong market positions in both the ‘Print & Packaging’ and ‘Sign & Display’ market sectors.

As Jonathan has covered earlier on in his address, Spicers has recently entered into an agreement to sell its Asian Operations. While these operations have delivered recently improved profit and cash returns, it was felt that that their longer-term future would be better served as part of an expanding Asian focused business. Completion of this sale will return in excess of $30 million of funds back into the Spicers Group, which we plan to utilise to provide a distribution to our shareholders and support growth initiatives in our continuing businesses.

I want to personally thank our team in Asia for their focus and commitment in executing on their business strategies and I wish them all the best for their future as part of a new business.

Diverse Product Portfolios

Our continuing Australian and New Zealand businesses operate across a diverse range of product portfolios.

Commercial Print continues to be at the core of our business operations. We have optimised our product range in this sector to best support our customers and their willingness to support our growth in this market. As a result, we have been successful in effectively managing our working capital and profitability and we feel we can improve even further here.

Digital Media is a paper-based sector that is expanding, as end-users seek more flexible digital printing solutions tailored to meet their growing short-run requirements. We have a strong portfolio of products to drive success in this market sector.

Our Label and Packaging offerings in Australia and New Zealand provide distinctive branding options for our customers in the food and beverage industries, particularly in Wine. We also provide Industrial Packaging supplies in Australia and New Zealand, with an innovative range of compostable bags in our New Zealand business. With success now in NZ, we are aiming for a level of adoption in the Australian market.

We have strong market positions in Sign & Display Media and hardware in both Australia and New Zealand, supported by a first-class range of suppliers and products including 3M™, LG, Mimaki™ and Roland. This is an exciting sector with new products and applications driving many new growth opportunities.

Architecture & Interior Design is a category that we believe has strong growth potential. In Australia, we have recently secured 3M™ Window Films as a new addition to our portfolio. This range offers a variety of window film solutions for commercial, residential, security, decorative and automotive applications. We are excited over the prospects for this strong range of products, serving both current and new customers to our business.

Australia and New Zealand now operate, with expertise, in this diverse set of market sectors and our differentiation is the dynamic and solutions-focused nature of our operations and teams.

Spicers FY2018 Financial Performance and 3-Year Trends

I will now turn to providing a summary of Spicers financial performance during the 2018 Financial Year, including the Asian Operations.

<u>Sales and Earnings</u>

Net sales revenue for FY2018 was $384.0 million. A return to sales revenue growth reflected growth across key product portfolios during the year, representing progress in comparison to prior years. This growth was driven by a strong focus on customer and market engagement.

Sign & Display continues to provide growth opportunities for our business, as demonstrated by the 3M™ Window Films agency that we have recently secured in Australia. The Sign Technology acquisition in New Zealand made in FY2018 has also provided an immediate significant presence in the LED and neon sign components sector, and access to strong global brands.

Group Underlying EBIT(1) for FY2018 was significantly up by 63.1% on FY2017. A return to growth in Print & Packaging and continued growth in Sign & Display consumables categories contributed almost $3 million to underlying gross profit improvement in the period. All operating businesses delivered local currency results ahead of prior year, driven by a combination of strong trading and substantial operating cost reductions, particularly in Australia.

Restructuring in our Australian organisation, including Corporate, delivered labour cost savings of $2.2 million in FY2018. Further operational cost savings were also made, across a broad range of areas such as premises costs and IT.

A loss of $1.9 million incurred by our Australian business on building cladding projects negatively impacted FY2018 earnings. This line of business has now been exited, and an estimate of the total contract loss on the final project was booked in the FY2018 result. A customer bad debt of $0.5 million also impacted upon Australia's FY2018 result.

(1) Non-IFRS measure – refer Appendix 1

Spicers

Cash Flow and Working Capital

Net cash inflow from operating activities in FY2018 was $17.3 million. This exceptional result was driven by improved operational earnings performance and sharp reductions in net working capital(1) balances.

Net working capital(1) levels at June 2018 fell by $10.7 million in comparison to the prior year. Our strong ongoing focus on inventory levels and ageing, with product portfolio ranges subject to regular reviews, led to substantial reductions in inventory balances. We have also been able to secure significant improvements in creditor payment terms with key suppliers, off the back of the Spicers Group's improved overall performance.

I should note that 30 June represents a high-point in the Company's annual cash cycle, due to seasonal patterns in inventory ordering and creditor payments, coupled with strong debtor collections in the run up to year-end.

3-Year Performance Trends

The 3-year performance trends in key sales, earnings and cash flow related metrics for the Spicers business illustrate the turnaround and strategic progress that we have made over this period.

An increase of 0.9% in continuing sales revenue in FY2018 broke a trend of annual declines in sales revenue for the Company over many years. Our focus on customer and market engagement, delivered this improvement. We are determined to continue to grow profitably by delivering on our promises to our customers and supply partners.

The trend of improvement in our Underlying EBIT(1) result accelerated in FY2018, driven by an increased gross profit contribution. It was delivered by a combination of strong market engagement and intelligent pricing strategies. Broad-based reductions in operating costs also contributed to this jump in underlying earnings in FY2018.

We are focused on targeting further opportunities to reduce operating costs. For example, we are aiming to secure reductions in freight costs in FY2019, by reviewing delivery routings and frequencies. The effective management of aged inventory is also an area of specific, ongoing focus.

A sharp turnaround in our operating cash flows over a 3-year period has been largely driven by our consistent management focus on working capital. Net working capital(1) levels fell by over $18 million from June 2016 to June 2018, with improvements secured in all key components of working capital.

Inventory levels have been sharply reduced. In addition, an ongoing focus on product portfolio reviews and aged inventory management has resulted in improved inventory quality.

(1) Non-IFRS measure – refer Appendix 1

Creditor 'days' payment terms have also been significantly improved across the 3-year period, with supplier confidence in Spicers improving as Company performance improves and it puts its legacy issues behind it.

These trends illustrate the strategic and operational progress we have made over the past 2 years. We are confident of this momentum continuing into FY2019 and beyond.

Trading Update

I will now turn to providing an update on our trading in the first four months of the 2019 financial year.

Total sales revenue is up on prior year. We are seeing commercial success in generally flat markets, and our focus on delivering profitable revenue growth remains.

Our EBIT result for the first four months of FY2019 is tracking ahead of prior year, in-line with management expectations. Our emphasis on cost control continues to deliver reductions in trading expenses and corporate costs in comparison to the prior year.

Our working capital and cash flow positions are tracking as expected, with inventories and debtor cash collections key focus areas. Traditionally our cash flows are weaker in the first-half of the financial year than in the second half, due to seasonal trading patterns and related working capital movements.

The recently announced settlement with the Netherlands Holdings Bankruptcy Trustees has further simplified and de-risked Spicers consolidated balance sheet. The release of related liabilities and provisioning is expected to result in a net gain of approximately A$1.9 million in the result from 'discontinued operations' for the first-half of FY2019.

Conclusion

Our strategy going forward continues to be focused on maximising Spicers' returns and free cash flows in Print & Packaging categories, while driving profitable revenue growth in Sign & Display and other growth categories. Delivering an improving trend in Underlying EBIT(1) results over the past 3 years is in large part due to our focus on sustainable profitability in each product category, and targeting strong organic growth in sectors where the market is expanding.

We have also focused on refining our product ranges to target healthier inventory positions, and instilling pricing discipline to assist our sales force in avoiding unprofitable business.

Our strong focus on market engagement has driven the business to return to annual sales revenue growth for the first time in 10 years. Our sales pipeline approach, along with new investments in expanding our 'on-line' presence, will continue to mean the market sees us as an engaged and relevant partner of choice. We are driven to mean more to our customers and we are adjusting our approach as we receive feedback on how we can be most effective for them in growing their business.

(1) Non-IFRS measure – refer Appendix 1

Continuing efficiency improvements in our operations and sales functions is ensuring that our growth delivers a profitable outcome for our business. We have delivered over $6 million of cost savings in trading expenses and corporate costs in the last 2 financial years.

This, and a reduction in funds employed of $13 million over the same period, comes as a result of our drive for continuous improvement in the business. Through our LEAN program implementation and our focus on efficiencies in our warehouse operations, we expect these savings to improve further as our collaborative teams work on new projects together.

Our people make a difference, every day in our business, and further developing our dynamic and accountable culture is strongly contributing to delivering on our strategies. Investing in the development of our people through programs such as 'sales force effectiveness', LEAN processes, and community engagement, means we are better equipped to find new ways to deliver on the expectations we have of ourselves.

We are convinced that these core strategies are delivering success for Spicers and will generate a sustainable and successful future for our Company.

We are very much looking forward to 2019 and the success we know we will bring to our Company.

Thank you.

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About Spicers Limited (SRS)
Spicers is a dynamic and solutions-focused distribution business with an extensive network in the geographies we serve. 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.

APPENDIX 1

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.