ASX RELEASE

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ASX RELEASE

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SPICERS LIMITED 2019 INTERIM RESULTS

Spicers reports significantly increased first-half underlying earnings

- Spicers Limited ('Spicers' or 'the Company') has reported underlying EBIT(1) of $7.0 million for the half-year ended 31 December 2018 ('1H19'), $3.4m (97.6%) higher than the prior corresponding period ('pcp')(2).
- Profit after tax from continuing operations of $5.9m was strongly up by $4.0m (214.2%) on pcp(2).
- A statutory loss after tax of $(6.7)m was incurred in 1H19, including a loss on sale of the Asian Operations(3) of $15.2m(4).

Key features of the 2019 interim results:

- Group net sales revenue for 1H19 was $194.6m. Net sales revenue from continuing operations was $158.6m, up 4.9% on pcp(2). Print & Packaging revenue grew strongly by 8.5%, while Sign & Display revenue was 5.3% lower in challenging market conditions.
- Australian underlying EBIT(1) of $5.1m was sharply up by $2.1m (66.7%) on pcp, driven by strong market engagement in Print & Packaging categories and continued tight control of operating expenses.
- New Zealand's underlying EBIT(1) of $3.9m was 0.5% higher than pcp in local currency terms, with solid results delivered across all product categories.
- Underlying Corporate Costs were $1.3m (39.6%) lower than pcp, reflecting the benefits of recent and ongoing cost reduction initiatives.
- A loss after tax on discontinued operations of $12.5m was recorded in 1H19. A loss on sale of the Asian Operations(3) of $15.2m (including foreign exchange related losses of $15.5m) was offset in part by a gain of $1.9m relating to the Netherlands Holdings bankruptcy trustees settlement(5).
- Net cash outflow from operating activities for continuing operations was $(9.0)m in the period, due to seasonal patterns in the Group's working capital balances and cash flows which are expected to reverse in the second-half.
- The Group's 'net cash' position at 31 December 2018 was $38.7m, with debt drawn of $2.2m.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated comparative data – refer Appendix 2
(3) The Company's Asian Operations consisted of operating subsidiaries in Malaysia (Spicers Paper (Malaysia) Sdn Bhd), and Singapore (Spicers Paper (Singapore) Pte Ltd). Please refer to Spicers ASX Announcements on 26 September 2018 and 27 November 2018 for further details of the sale, which completed on 11 December 2018.
(4) This loss consisted of (non-cash) foreign exchange related losses of $15.5m, primarily related to accumulated foreign currency translation reserve balances, and an accounting profit of $0.3m excluding these non-cash items
(5) Refer to Spicers ASX Announcement on 12 November 2018 "Settlement with the Netherlands Holdings Bankruptcy Trustees" for further details

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

"We continue to meet our promises. These results are the outcome of strong business strategy and execution by the talented people in our business. With ongoing growth in our revenue, along with our continuing focus on efficiencies, we have met our promise to improve shareholder returns consistently, period-on-period, over the past two and a half years.

Initiatives to further improve our growth potential, and seasonal working capital trends, have led to a cash outflow in the first-half, which will essentially reverse in the second-half. We are very pleased with the continued progress in our operating businesses and, working in concert with the board, our Corporate cost reduction initiatives, all delivering improved shareholder value.

This has all now culminated in an offer from Kokusai Pulp & Paper to acquire the whole of Spicers via a scheme of arrangement[(1)], a proposed transaction that we believe is very attractive to shareholders. We look forward to updating shareholders and seeking their support on this proposed transaction in the coming months."

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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.

(1) Refer to Spicers ASX Announcement on 17 January 2019 "Spicers Limited enters into a Scheme Implementation Deed with Kokusai Pulp & Paper Co., Ltd" for further details

RESULTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Spicers Limited has reported a statutory loss after tax of $6.7m (including a loss of $15.2m[(3)] on the sale of the Asian Operations) and underlying EBIT[(1)] of $7.0m for the half-year ended 31 December 2018 (1H19).

All amounts are stated in Australian Dollars ($), unless noted otherwise.

Results Summary		Actual Dec 2018	Actual Restated [(2)] Dec 2017
Net sales revenue	$000	194,627	193,190
Earnings before interest and tax - continuing	$000	7,005	3,108
Underlying earnings before interest and tax [(1)]	$000	6,961	3,522
Profit before tax - continuing	$000	6,968	2,927
Profit after income tax - continuing	$000	5,891	1,875
(Loss)/profit after income tax - discontinued	$000	(12,542)	4
Statutory (loss)/profit after tax	$000	(6,651)	1,879
Net working capital [(1)]	$000	72,640	90,787
Net working capital - continuing [(1)]	$000	73,299	71,209
Average working capital/sales revenue - continuing [(1)]	%	21.9	23.7
Net cash flow from operating activities	$000	(13,654)	(915)
Net cash flow from operating activities - continuing	$000	(8,991)	(1,316)
Basic earnings per share	cps	(0.3)	0.1
Basic earnings per share - continuing	cps	0.3	0.1
FTEs - continuing		310	328

The following table shows half-year sales revenue and underlying EBIT[(1)] by segment:

Operating Summary		Net Sales Revenue Dec 2018	Net Sales Revenue Restated [(2)] Dec 2017	Underlying EBIT [(1)] Dec 2018	Underlying EBIT [(1)] Restated [(2)] Dec 2017
Segment:					
Australia	$000	110,054	103,691	5,127	3,076
New Zealand	$000	48,754	47,635	3,870	3,816
Corporate / eliminations	$000	(212)	(107)	(2,036)	(3,370)
Total continuing operations	**$000**	**158,596**	**151,219**	**6,961**	**3,522**
Discontinued operations	**$000**	36,031	41,971		
Total	**$000**	**194,627**	**193,190**		

(1) Non-IFRS measure – refer Appendix 2
(2) Restated comparative data – refer Appendix 2
(3) This loss consisted of (non-cash) foreign exchange related losses of $15.5m, primarily related to accumulated foreign currency translation reserve balances, and an accounting profit of $0.3m excluding these non-cash items

GROUP OPERATING PERFORMANCE

Revenue

1H19 net sales revenue from continuing operations was $158.6m, up $7.4m versus pcp(2).

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

Net Sales Revenue		Dec 2018	Restated(2) Dec 2017	% Change
Print & Packaging	$000	121,388	111,912	8.5
Sign & Display	$000	37,208	39,307	(5.3)
Total revenue - continuing	**$000**	**158,596**	**151,219**	**4.9**

Continuing net sales revenue from Print & Packaging categories improved by 8.5% compared to pcp(2), driven by strong market engagement in these categories across Australia and New Zealand.

Net sales revenue from Sign & Display categories fell by 5.3% versus pcp(2). Market conditions were soft during 1H19, particularly in Australia.

While trading conditions were variable across different categories, overall growth of 4.9% in 1H19 total continuing sales revenue continues the progress made in FY2018.

Earnings and Statutory Profit

Group underlying EBIT(1) of $7.0m for 1H19 was strongly up by $3.4m (97.6%) on pcp(2). This was driven by a combination of a substantially improved underlying EBIT(1) result from the Australian business ($2.1m up on pcp), and significantly lower ($1.3m) underlying Corporate expenses from cost reduction initiatives implemented. The New Zealand business continued to deliver strong and consistent EBIT performance.

The Spicers group recorded a statutory loss after tax of $(6.7)m for 1H19. An accounting loss of $15.2m(3) on the sale of the Asian Operations was booked in the period.

Cash Flow and Working Capital

1H19 Net cash flow from operating activities for continuing operations was $(9.0)m. This cash outflow was largely due to seasonal timing factors impacting upon working capital balances during the 6-month period, which are expected to reverse in the second-half of FY2019.

While net working capital balances for continuing operations were $2.1m higher than pcp(2), the average working capital/sales revenue ratio(1) fell by 180 basis points to 21.9%, off a higher sales revenue base.

(1) Non-IFRS measure – refer Appendix 2
(2) Restated comparative data – refer Appendix 2
(3) This loss consisted of (non-cash) foreign exchange related losses of $15.5m, primarily related to accumulated foreign currency translation reserve balances, and an accounting profit of $0.3m excluding these non-cash items

OPERATING PERFORMANCE BY REGIONAL SEGMENT

Australia

		Dec 2018	Dec 2017	% Change
Net sales revenue	$000	110,055	103,691	6.1
Profit before interest and tax	$000	5,118	2,989	71.2
Underlying EBIT (1)	$000	5,127	3,076	66.7
Underlying EBIT/sales revenue (1)	%	4.7	3.0	170 bpts
Expense/sales revenue	%	18.0	20.2	(220) bpts
Net working capital (1)	$000	49,692	52,824	(5.9)
Average working capital/sales revenue (1)	%	23.0	26.7	(370) bpts

1H19 net sales revenue in Australia was up 6.1% on pcp. Strong market engagement in Print & Packaging drove sales revenue growth in these categories. Challenging market conditions in the Sign & Display media category during the 6-month period led to a decline in sales revenue, which was partly compensated by increased revenue in the architectural category following Spicers securing distribution rights to 3M™ Window Film products.

Underlying EBIT(1) of $5.1m for 1H19 was sharply up by $2.1m (66.7%)on pcp, driven by sales revenue growth in Print and Packaging categories. Tight control of operating expenses also continued to be maintained, with the expense to sales revenue ratio falling to 18.0%.

Net working capital(1) was 5.9% lower than pcp, driven by improvements in both debtors and creditors payment terms in comparison to pcp. The average working capital to sales revenue ratio fell by 370 basis points to 23.0%, due to a combination of lower net working capital levels from an increased sales revenue base.

(1) Non-IFRS measure – refer Appendix 2

New Zealand

		Dec 2018	Dec 2017	% Change
Net sales revenue	NZD 000	52,732	52,003	1.4
Profit before interest and tax	NZD 000	4,182	4,112	1.7
Underlying EBIT (1)	NZD 000	4,186	4,166	0.5
Underlying EBIT/sales revenue (1)	%	7.9	8.0	(10) bpts
Expense/sales revenue	%	16.5	17.4	(90) bpts
Net working capital (1)	NZD 000	26,135	22,163	17.9
Average working capital/sales revenue (1)	%	20.4	19.8	60 bpts

Net sales revenue in New Zealand was 1.4% higher than pcp, with revenues from Print & Packaging and Sign & Display categories both marginally up on prior year.

Underlying EBIT(1) of NZD 4.2m was 0.5% higher than pcp, with the Underlying EBIT to sales revenue ratio(1) maintained at a solid 7.9% due to a combination of tight control of gross margins and operating expenses.

Net working capital(1) at 31 December 2018 was NZD4.0m higher than pcp, due to a combination of higher debtors balances from some significant individual sales in November and December 2018 and increased inventory levels in Sign & Display products. These impacts on working capital levels are expected to reverse during second half of FY2019.

(1) Non-IFRS measure – refer Appendix 2

DISCONTINUED OPERATIONS

Discontinued – Total

		Dec 2018	Dec 2017[2]
Net sales revenue	$000	36,031	41,971
(Loss)/profit before interest and tax	$000	(12,378)	212
(Loss)/profit after interest and tax	$000	(12,542)	4

In 1H19 Discontinued Operations comprised of a combination of the Asian Operations[3] divested during the period and transactions related to European and other operations previously disposed of by Spicers. Pcp comparatives for 1H18 have also been restated to show these Asian Operations as discontinued.

Discontinued – Asia

		Dec 2018	Dec 2017[2]
Net sales revenue	$000	36,128	41,979
(Loss)/profit before interest and tax	$000	(14,249)	1,007
(Loss)/profit after interest and tax	$000	(14,431)	797

The results of the Asian Operations were included in the Spicers Group results until the sale completed on 11 December 2018. Net sales revenue was $36.1m (AUD equivalent), and Profit Before Interest and Tax from trading activities was $1.0m (AUD equivalent) during this period.

The Spicers Group booked a loss of $15.2m on the sale of the Asian Operations, including (non-cash) foreign exchange related losses of $15.5m. These accounting losses were primarily related to accumulated foreign currency translation reserve balances. Excluding these non-cash items, a small profit of $0.3m was recorded on the transaction.

Discontinued – Other

A profit after interest and tax of $1.9m was recorded in 1H19 in relation to other discontinued operations. This mainly related to a gain of $1.9m recorded on the Spicers Group reaching a settlement agreement with the bankruptcy trustees of PaperlinX Netherlands Holdings B.V[4].

(1) Non-IFRS measure – refer Appendix 2
(2) Restated comparative data – refer Appendix 2
(3) The Company's Asian Operations consisted of operating subsidiaries in Malaysia (Spicers Paper (Malaysia) Sdn Bhd), and Singapore (Spicers Paper (Singapore) Pte Ltd). Please refer to Spicers ASX Announcements on 26 September 2018 and 27 November 2018 for further details of the sale, which completed on 11 December 2018.
(4) Refer to Spicers ASX Announcement on 12 November 2018 "Settlement with the Netherlands Holdings Bankruptcy Trustees" for further details.

FINANCIAL POSITION

Consolidated Balance Sheet

Balance Sheet		As at 31 December 2018	As at 30 June 2018	As at 31 December 2017
Current assets	$000	181,068	197,957	177,154
Non-current assets	$000	34,729	37,492	36,819
Total assets	$000	215,797	235,449	213,973
Current liabilities	$000	67,043	97,974	78,953
Non-current liabilities	$000	416	546	519
Total liabilities	$000	67,459	98,520	79,472
Shareholders' equity	**$000**	**148,338**	**136,929**	**134,501**

Shareholders' equity / net assets of $148.3m at 31 December 2018 was $13.8m higher than at 31 December 2017. This increase was driven primarily by improved profit returns from continuing operations over the 12-month period to 31 December 2018, and an increase in net working capital levels off a higher sales revenue base.

The increase in net assets at 31 December 2018 compared to 30 June 2018 is due to a combination of improved profit returns from continuing operations over the 6-month period and the impact of seasonal factors on working capital balances.

Cash Flow

Cash flow	Continu-ing $000	Discont-inued $000	Dec 2018 $000	Dec 2017 $000
Operating receipts and payments (excluding working capital movement and restructuring)	**6,648**	**793**	**7,441**	**4,628**
Working capital movement	(13,607)	(5,374)	(18,981)	(2,773)
Restructuring	(899)	-	(899)	(1,076)
Net interest paid	(10)	79	69	(120)
Income taxes paid	(1,123)	(161)	(1,284)	(1,574)
Net cash flow from operating activities	**(8,991)**	**(4,663)**	**(13,654)**	**(915)**
Capital expenditure	(172)	(4)	(176)	(359)
Transfer of short-term deposits to cash and cash equivalents	2,273	-	2,273	-
Net payments for acquisition of assets & businesses	-	-	-	(789)
Net proceeds from sale of assets & businesses	10	15,734	15,744	16
Net payments relating to discontinued operations	-	(9,515)	(9,515)	355
Net cash flow before financing activities	**(6,880)**	**1,552**	**(5,328)**	**(1,692)**

Net cash outflow from operating activities – continuing operations in 1H19 was $(9.0)m.

Operating receipts and payments from continuing operations of $6.6m for the period were significantly up on pcp(2), broadly in line with increased Group underlying EBIT(1) for 1H19.

The net impact of movements in working capital balances on 1H19 continuing cash flows was $(13.6)m. The Group's operating cash flows in the first half are typically weaker due to seasonal factors affecting working capital balances, which then reverse in the second half.

The impact of increased sales revenue from continuing operations in 1H19, along with higher debtors balances in New Zealand from some significant individual sales in November and December 2018, have also further contributed to higher net working capital levels at 31 December 2018.

Cash outflows from restructuring were $(0.9)m in 1H19. These related to payments on restructuring in the Australian organisation that was implemented in the second half of FY2018.

Transfers of $2.3m from short-term deposits to cash balances during 1H19 related to reduced 'cash-backing' requirements secured on bank guarantees in place.

Net cash inflow before financing activities from discontinued operations was $1.6m in 1H19. This net cash inflow included $15.7m net sale proceeds (excluding retained cash) received on the sale of Spicers Asian Operations, and total payments of $9.5m primarily relating to the Netherlands Holdings bankruptcy trustees settlement(3).

(1) Non-IFRS measure – refer Appendix 2
(2) Restated comparative data – refer Appendix 2
(3) Refer to Spicers ASX Announcement on 12 November 2018 "Settlement with the Netherlands Holdings Bankruptcy Trustees" for further details.

Cash, Interest and Funding

Cash / (Debt)		Dec 2018	Jun 2018	Dec 2017
Gross debt	$000	(2,173)	-	(1,642)
Cash and cash equivalents	$000	39,147	41,135	26,152
Short term deposits	$000	1,682	3,955	3,955
Net Cash	**$000**	**38,656**	**45,090**	**28,465**

Interest expense		Dec 2018	Restated (2) Dec 2017	% Change v Actual
Net interest - continuing	$000	37	181	79.6
Net interest - discontinued	$000	(33)	11	400.0
Net interest expense	**$000**	**4**	**192**	**98**

The Group's net cash position at 31 December 2018 was $38.7m, $6.4m lower than at 30 June 2018.

This lower net cash position was primarily due to seasonal working capital and cash flow patterns. 31 December is typically the low point in the Company's annual cash cycle, while 30 June represents a high point.

The impact of these working capital and cash flow movements on the Group's net cash at 31 December was partly offset by key cashflows relating to discontinued operations ($15.7m net proceeds received on the sale of Spicers Asian Operations, less payments of $9.5m primarily `relating to the Netherlands Holdings bankruptcy trustees settlement(3)).

Net interest expense in 1H19 was only $4k, due to very low 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 fall due in October 2019 (New Zealand) and November 2019 (Australia) respectively.

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(1) Non-IFRS measure – refer Appendix 2
(2) Restated comparative data – refer Appendix 2
(3) Refer to Spicers ASX Announcement on 12 November 2018 "Settlement with the Netherlands Holdings Bankruptcy Trustees" for further details.

APPENDIX 1

The following table shows statutory earnings in Australian dollars.

For the half-year ended	Dec 2018	Dec 2017
		Restated [2]
	$000	$000
Group revenue	**194,627**	**193,190**
Underlying earnings: [2]		
Australia	5,127	3,076
New Zealand	3,870	3,816
Corporate / eliminations	(2,036)	(3,370)
Total continuing operations	6,961	3,522
Discontinued operations	974	618
Profit before interest, tax and significant items	**7,935**	**4,140**
Significant items (pre-tax)	(13,308)	(820)
(Loss)/profit before interest and tax	**(5,373)**	**3,320**
Net interest	(4)	(192)
(Loss)/profit before tax	(5,377)	3,128
Tax relating to pre-significant items	(1,274)	(1,262)
Tax relating to significant items	-	13
Statutory (loss)/profit for the period	**(6,651)**	**1,879**

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

For the half-year ended	Dec 2018	Dec 2017
		Restated [2]
	$000	$000
Statutory (loss)/profit for the period, after tax	**(6,651)**	**1,879**
Adjust for following (gains)/losses included in statutory profit:		
Loss/(profit) after tax - discontinued	12,542	(4)
Tax expense - continuing	1,077	1,052
Net interest - continuing	37	181
Earnings before interest and tax - continuing	**7,005**	**3,108**
Adjust for continuing significant items:		
Restructuring costs	(44)	414
Group strategic review costs	-	-
Underlying EBIT [1]	**6,961**	**3,522**

(1) Non-IFRS measure – refer Appendix 2
(2) Restated comparative data – 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 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.

Restated comparative data

Relevant prior corresponding period (pcp) data has been re-presented to reflect:

- The reclassification of the Company's Asian Regional Segment from continuing to discontinued operations, as a result of the sale of the Company's Asian Operations[1]. Refer to Note 9 of the Company's Interim Financial Report as at, and for the 6 months ended, 31 December 2018 for further details.

(1) The Company's Asian Operations consisted of operating subsidiaries in Malaysia (Spicers Paper (Malaysia) Sdn Bhd), and Singapore (Spicers Paper (Singapore) Pte Ltd). Please refer to Spicers ASX Announcements on 26 September 2018 and 27 November 2018 for further details of the sale, which completed on 11 December 2018.