OVATO

Investor Presentation 2019

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30 August 2019

OVATO

Financial Overview FY19

Sales at $669.2M

On Forecast - a 8.8% decrease to pcp:

- Primarily driven by a $59M decrease in Ovato Australia revenue
- Tier 1 Catalogue volumes held strong, particularly Food & Beverage
- Tier 2/3 volumes impacted by softer retail conditions
- Lower than expected newspaper & magazine volumes

EBITDA[1] at $30.8M

Delivered on revised guidance - a 24.1% decrease to pcp:

- Group EBITDA[1] / Sales ratio 4.6% vs 5.5% pcp
- Ovato Australia EBITDA[1] / Sales ratio 4.7% vs 4.9% pcp as lower print volumes were mostly offset by cost savings
- Overall Group margin impacted by Ovato NZ which is down 57% pcp on lower print sell prices

Net Debt at $44.7M

Delivered on revised guidance:

- NSW Site Consolidation with cash spend continuing on redundancies, site works, press relocations and make good
- New Commerzbank ECA loan to finance new 80pp press to be drawn in FY20

Net Loss at ($84.3M)

- Net trading loss after interest & tax before significant items of ($4.4M) vs profit of $1.1M pcp
- Cash related significant items (primarily blue-collar redundancies) lower pcp offset by higher non-cash impairments pcp

1. Before significant items

Overview of FY19

- A fall in Newspaper volumes greater than expected, increased competition following the printing alignment between Fairfax & News Corp and softer retail conditions than expected have negatively impacted on revenues.
- Ovato Australia margin performance held despite lower revenues - EBITDA[1]/Sales Margin relatively stable 4.7% vs 4.9% pcp
- Continuation of strong focus on manufacturing cost base reductions and improving margins
- NSW Site Consolidation on schedule to deliver Super Site at Warwick Farm with new 80PP press commissioning in November and annualised cost savings of $24M
- Meaningful progress made in developing new revenue streams in Marketing Services
- Repositioning and rebranding of the company to Ovato – significant cultural shift to being more customer & people focused
- Ovato New Zealand continues to operate in an over capacity market – as industry leaders we are proactively seeking industry led solutions

1. Before significant items

Our Vision

We are creating a smarter and sustainable business to deliver integrated marketing solutions that turn audiences into customers

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Integrated marketing services for our clients

Print.

- Large format, high-speed and variable data printing
- 261,800 tonnes produced annually
- Quality client base
- Only Australian Printer with manufacturing operations in all major States

Distribution.

- Last-mile residential distribution to 8 million homes across Australia & New Zealand
- Retail distribution to 8,100 stores, newsagents and petrol & convenience, twice a week
- Integration to digital advertising channels, leveraged against geography

Production.

- Photography
- Post production
- Pre-media
- Production specific technologies

Agency.

- Communications
- Content
- Creative
- Social
- Strategy
- Technology solutions
- Advertising Production Solutions

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Our quality client base

AFL
ALDI
alg Australian Learning Group
Amart Furniture
ANACONDA
ASUS
BAUER
BEST & LESS
BIGW
bmf
booktopia
BOSCH Invented for life
BUNNINGS warehouse
Cheap as Chips
DAVID JONES
Dan Murphy's
Drakes.
DOMAYNE
ebay
EZIBUY Your Style
foxtel
hardie grant
hs harris scarfe
Harvey Norman
HelloFresh
IKEA
intel
Kathmandu
Kmart
LETTERBOX DEALS
merivale
MEDIUM RARE Content Agency
Metcash
michael hill
MYER
News Corp Australia
NewsLifeMedia
news local
Nestlé
NSW Government Education & Training
Officeworks Big ideas. Lowest prices.
OPTUS
Oxfam
P&G
Penguin Random House
Pillow Talk For the love of comfort
Pine Discount Quality Furniture
priceline pharmacy
QANTAS Spirit of Australia
RACV
RACQ
REBEL SPORT
Repco
R. M. WILLIAMS EST. 1932, AUSTRALIA
SCENIC Luxury Cruises & Tours
SCHOLASTIC
SINGAPORE AIRLINES
Soul Pattinson Chemist
SPOTLIGHT
The Athlete's Foot
the brand agency
The National Roads & Motorists' Association
THE REJECT SHOP
UAC Universities Admissions Centre
VIKING
Weight Watchers
Woolworths The fresh food people

Alignment of action and strategy

1. Grow Retail Marketing Business

- Food and Beverage remain strong
- Growth of clients adjacent to retail. FMCG brand & Online
- Data insights allowing for more targeted marketing spend and greater return

2. Optimise Publishing

magazines, newspapers, books

- Strong partnerships with traditional publishers and emerging content agencies
- Sole provider of retail distribution network for magazines in Aust & NZ
- Investment in Print on Demand equipment for books and personalised marketing

3. Operational Efficiency

- NSW site consolidation allowing for reduced manufacturing cost base of $24M annually from H2FY20 ($35M cash spend FY20)
- Investment in new 80page press and retirement of 5 older, less efficient presses
- Development of Super Site at Warwick Farm

4. Create a Robust Distribution Platform

- Continued confidence from Australia’s leading retailers, by awarding Ovato their catalogue print & distribution
- Investment in data analytics allowing ROI and targeted mapping for each campaign

Volumes across large food and beverage clients remains strong.

6.2%

Print volumes of our major grocery customers have Increased FY17 to FY19

37%

Food & Beverage catalogues account for 37% of our print revenue, up from 34% in FY17

68%

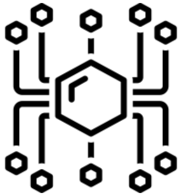
Retail catalogues account for 68% of our print revenue, up from 62% in FY17

A Focused Business

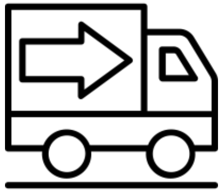
Focused on volume and growth

Proven ROI Model

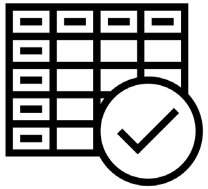
Mapping data across geography



Increasing adoption of our investments in technology



All presses moved & new press in transit



NSW site consolidation on schedule

Executing Strategic Priorities

Phases Currently Underway:

- NSW site consolidation and evolution of Super Site at Warwick Farm with new 80pp press and lower manufacturing cost base
- Developing new data driven revenue streams to enhance customer value

Completed Phases:

- Industry Consolidation & Reduced Capacity
- Strengthened capital base with capital raise & long term debt facilities

DEC19

- Site consolidation complete & Moorebank closed
- Net Debt Peak following new press installation and redundancies complete

JUN20

- Increasing revenue in Marketing Services from our enhanced capabilities in data
- Cashflow Positive 4th Quarter

DEC20

- Ovato Advertising Production System live in several retail customers
- Capital expenditure disciplined circa $5M pa

JUN21

- Repositioning of NZ operations completed
- Continuation of positive cash flow & reducing Net Debt

Our performance

Income Statement

$M	FY19	FY18	Var %
Sales Revenue - Statutory	669.2	734.0	(8.8%)
EBITDA (before significant items)	30.8	40.6	(24.1%)
Depreciation & Amortisation	(28.6)	(31.3)	8.4%
EBIT (before significant items)	2.2	9.4	(76.3%)
Net (Loss)/Profit After Tax (before significant items)	(4.4)	1.1	-
Significant items post tax	(79.9)	(44.9)	-
Net (Loss) (after significant items)	(84.3)	(43.8)	-

Operations Summary

Sales Revenue ($M) - Statutory	FY19	FY18	Var $	Var %
Ovato Australia Group	554.9	613.9	(59.0)	(9.6%)
Ovato New Zealand Group	114.3	120.1	(5.8)	(4.8%)
Total Group	669.2	734.0	(64.7)	(8.8%)

EBITDA[1] ($M)	FY19	FY18	Var $	Var %
Ovato Australia Group	26.3	30.0	(3.7)	(12.5%)
Ovato New Zealand Group	4.6	10.6	(6.0)	(57.0%)
Total Group	30.8	40.6	(9.8)	(24.1%)

1. Before significant items

Business Unit Summary

Ovato Australia statutory revenue at $554.9M is down by $59M or 9.6% :

- EBITDA[1] $26.3M down $3.7M or 12.5% pcp
  - higher outcomes at Retail Distribution and Marketing Services offset by lower EBITDA at Print & Distribution
  - strong cost savings at Print offset much of the impact from lower volumes and higher input costs

1. Before significant items

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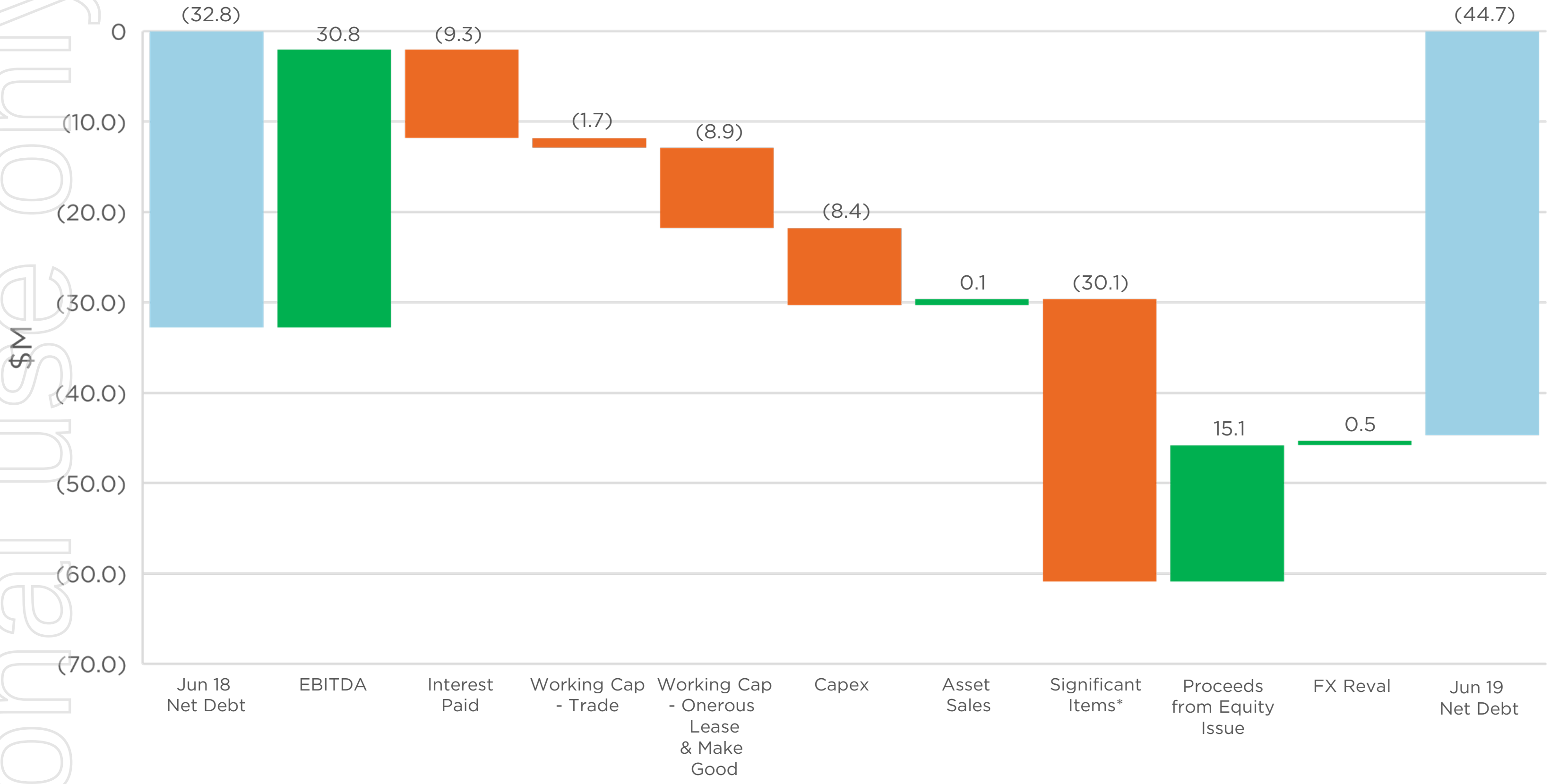
Business unit summary

Ovato New Zealand revenue $114.3M down $5.8M or 4.8%:

- Heatset volumes down 4% pcp
- EBITDA[1] at $4.6M is $6M or 57% lower pcp
  - Non-Heatset businesses broadly in line pcp
  - Reduction mainly at Heatset print :
    - Major contract renewals at lower sell prices in very competitive market
    - Higher paper prices not fully recouped

1. Before significant items

Net debt/Cash Flow Bridge



- Net cash flow ($12.4M) is $0.1M lower than FY18
- Lower cash significant items and equity proceeds offset by lower EBITDA, working capital movements and higher interest expense

* = Refer page 23 for a breakdown of significant items

Key Metrics

	FY19	FY18	%
Cash Flow from Operating Activities ($M)	(19.2)	(6.1)	-
Net Cash Flow[1] ($M)	(12.4)	(12.6)	1.0%
Net Debt ($M)	(44.7)	(32.8)	-
EBITDA[2] to Sales Revenue (%)	4.6%	5.5%	-
Net Debt / EBITDA[2]	1.4x	0.8x	-

Debt Profile

- Net Debt June 2019 is $44.7M :
  - vs $32.8M Net Debt at June 2018
  - Net Debt / EBITDA[2] 1.4x vs 0.8x at June 2018
- Bond $40M refinance completed November 2018
  - Secured bond at 8.25% coupon
  - 4-year term
- Commerzbank loan for new press :
  - to be drawn in H1 FY20
  - 4-year semi-annual amortising loan
- Extended ANZ $40M receivables financing facility to February 2020

1. Net Cash Flow equals Net Cash Flow from Operations less Investing Cash Flows and proceeds from share issue
2. Before significant items

Balance Sheet Metrics

	FY19	FY18
Total Assets ($M)	433.7	518.3
Shareholders Funds ($M)	141.9	210.4
Net Debt ($M)	(44.7)	(32.8)
Interest Cover (EBITDA[1] / Interest) (times)	4.3	6.0
Net Debt to EBITDA[1] (times)	1.4	0.8
Net Debt to Equity (%)	31.5	15.6
Net Tangible Assets per share (cps)	0.14	0.34
Trade Working Capital ($M)	45.3	45.6
Debtor Days	30.0	29.4
Cash Conversion (%)[2]	35.3%	72.6%

1. Before significant items.
2. Cash Conversion is calculated as Cash Flow from operations (adjusted for significant items) / EBITDA before significant items. Includes impact of payments on onerous leases and make good.

Outlook

- Cautious Outlook in the short term with slower retail markets and lower consumer confidence
- Tier One Food & Beverage catalogues remain in line with expectations
- Group EBITDA* / Sales ratio to improve in the medium term as consolidation benefits are realised and New Zealand margins stabilise
- Net debt and negative cashflow associated with the NSW site consolidation in H1 FY20
- Return to positive cashflow H2FY20 post NSW site consolidation – annualised savings $24M ($14M in FY20)
- Maintenance capital expenditure to remain circa $5M pa and lower significant items in FY20

* Before significant items.

FY19 Full Year Results Addendum

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Reconciliation of EBITDA

$M	FY19	FY18	Var %
Statutory (Loss)	(84.3)	(43.8)	-
Income Tax (expense) on significant items	(16.3)	(5.6)	-
Statutory (Loss) before Income Tax	(68.0)	(38.2)	-
Significant Items (before tax)	(63.6)	(39.4)	-
(Loss) / Profit before significant items	(4.4)	1.1	-
Income Tax Benefit/(expense)	1.8	(0.8)	-
Net Finance Costs	(8.4)	(7.4)	(13.0%)
EBIT (before significant items)	2.2	9.4	(76.3%)
Depreciation & Amortisation	28.6	31.3	-
EBITDA (before significant items)	30.8	40.6	(24.1%)

Reconciliation of Cash Flow

	FY19	FY18	Var $
EBITDA[1]	30.8	40.6	(9.8)
Borrowing Costs	(9.3)	(6.2)	(3.2)
Income Tax (paid)	(0.0)	(0.1)	0.0
Movement in Trade Working Capital	(1.7)	5.3	(6.9)
Working Capital – Onerous Lease and Makegood Provisions Payments	(8.9)	(10.2)	1.2
Trading Cash Flow	10.9	29.5	(18.6)
Significant Items	(30.1)	(35.6)	5.5
Cashflow From Operations (Appendix 4E)	(19.2)	(6.1)	(13.1)
Asset Sales	0.1	2.6	(2.5)
Capital Expenditure	(8.4)	(9.0)	0.6
Share Issue	15.1	0.0	15.1
Net Cash Flow	(12.4)	(12.6)	0.1
Gain / (Loss) on Translation of FX Cash & Other	0.5	(1.7)	2.2
Reconciliation to Net Debt Movement	(11.9)	(14.3)	2.3

1. Before significant items

Significant Items

$M	Cash	Non Cash	Total
Redundancies/Press relocations/Other	30.1	0.0	30.1
Impairment[1]	0.0	18.2	18.2
Sub Total FY19	30.1	18.2	48.3
Net (Gain)/Loss on disposal of P&E[2]	(0.1)	0.8	0.7
Onerous Lease Provisions[3] (to be released over 2020-2025)			14.6
Total Significant Items (as per note 2b of the Appendix 4E)			63.6
Tax Expense on Significant Items (as per note 2b of the Appendix 4E)			16.3
Total			79.9

1. Predominantly PP&E impairments in relation to the closure of Moorebank and write down in value of Print NZ
2. Forms part of the Asset Sales line on the Cash Flow statement
3. New onerous leases (Moorebank closure) and changes in assumptions for previously booked provisions in relation to closed sites. These costs will be paid out FY19-FY25

Disclaimer

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