

AGM Speeches

Chairman's address.

As the Ovato business moves past two significant milestones, I want to share the board's sense of anticipation for the coming year. As a new Chairman, I bring an enthusiasm for this business and the people that work in it. First though, we must cover the events of the year just past.

It has been a period of substantial change for Ovato and a challenging year for our industry and for our publisher and retailer customers as consumer confidence and a sluggish economy drives different decisions and different behaviour.

Our executive team are making tough and strategic decisions regarding the way we will do business going forward to improve our efficiency and lower our cost of production to position us well for the future.

Disruption and change was tempered by signs our strategy is correct and we should expect better times ahead. We have focused our efforts on our largest retail clients, and their volumes have held up. Our investment in data is driving different conversations with our client base and uncovering new revenue opportunities for us. We have continued to find efficiencies in our manufacturing footprint that will have a significant positive impact on our balance sheet as we move into FY21.

[Financial Performance Slide]

The first half of FY19 showed great promise, with earnings close to budget and our top 30 accounts all tracking at or above our expectations from a volume perspective. This positive trend continued into the third quarter.

As we approached the federal elections in May 2019, we saw a pronounced drop in catalogue volumes, compounded further by a continuing pullback in volumes by our clients across the publishing sector, resulting in a challenging end to the 2019 financial year.

(Results on screen)

Revenue fell further than expected across fiscal 19, with Ovato finishing the year at \$669.2m. EBITDA was heavily affected as a result, coming in at \$30.8m.

Success in Retail Distribution and Marketing Services were offset by lower than expected profitability across Print and Residential Distribution.

Ovato New Zealand experienced a particularly difficult year, as print volumes fell four percent, and this was compounded by competitive pressure on sell price across contract renewals and an inability to recoup paper cost increases quickly enough which reduced EBITDA by more than half from the prior year.

[Site Consolidation Slide]

All offset web print capabilities in NSW have now been combined at our super site at Warwick Farm and we are well progressed with the closure of operations at our Moorebank site. This represents the last of

the large production synergies made possible with the merger of PMP and IPMG. The closure of Moorebank marks the end of a mammoth and painful restructuring program that has tested everyone involved, our customers, our management, our employees and our shareholders, it has been a lengthy, costly and disruptive process but absolutely necessary to position the company for the future, it simply had to be done.

This final stage of our consolidation of three sites in NSW to a single SuperSite at Warwick Farm, together with the previously completed consolidation of sites in Queensland and Victoria at the time of the merger, has allowed for the retirement of older, less efficient presses and a significant reduction in headcount. The Warwick Farm site leads the market in terms of size, diversity and efficiency. This will continue to deliver improvements to our efficiency as a manufacturer over the coming years.

The consolidation delivers the company annualised savings of \$24m, which we will see start to come through in the second half of FY20 and with full effect as we move into FY21.

[Refinancing Slide]

Ovato has recently completed a refinance of its working capital facilities with a new \$50m 3-year working capital facility originated through Assetsecure.

The new facility replaces Ovato's existing finance and working capital facilities with the ANZ and provides longer term funding than the previous ANZ facilities, which were provided on a rolling annual basis.

Assetsecure is a specialist corporate financier providing asset management services and trade finance for large, working capital intensive businesses looking to optimise cashflow.

[Balance Sheet Slide]

As previously stated, Net debt will increase in Fiscal 20 as the new 80-page press is commissioned and the costs associated with consolidating our NSW footprint is completed.

The most significant corporate development this year was the rights issue in the last quarter, where the company offered one new share for every 2.3 shares. Underwritten by our core investors and with the support of retail investors, the rights issue provided additional liquidity by reducing leverage and providing financial flexibility to the company, enabling the earlier completion of the NSW site consolidation previously mentioned.

Cashflow is expected to return to positive territory as we head towards FY21 when the restructure costs are behind us and maintenance capital remains at circa \$5m per annum.

All available cash will be deployed in the reduction of debt.

[Governance Slide]

Since last years' meeting, we have had significant changes to your Board of Directors, with the resignation of Wai Tang in September, Matthew Bickford-Smith and Terry Sinclair in November.

Unfortunately, a mix of personal circumstance and increasing commitments on other public company boards, led to Wai determining she was no longer able to continue as a director of Ovato.

Matthew resigned earlier this week, ending a ten-year contribution to the company, eight of which he served in the role of Chairman. Matthew was a valuable guide as we bought the two business together during the merger and has helped the company immeasurably to navigate the changing dynamics of our industry. He leaves as the company achieves two significant milestones in securing longer term financing and the final site consolidation of our manufacturing footprint in NSW.

Terry Sinclair also resigned this week.

The directors of Ovato affirm the value and necessity of having an independent board. The board will be rebalanced with a majority of independent directors, also ensuring the independence of all board committees. I look forward to sharing the news of our new non-executive directors as soon as possible.

The Board's Directors are all aware of their obligation to declare conflicts of interest, or where the perception of a conflict of interest could arise. Directors who have any conflict of interest, or perception of conflict of interest, will continue to excuse themselves from participating in decisions about and voting on any such matters. Myself as a major shareholder obviously included.

The Board will continue to ensure that all Directors are focused on the interests of all shareholders.

[Thanks]

In closing, I want to acknowledge the contributions of my fellow board members this year.

On behalf of the board, I want to thank Kevin Slaven our CEO, his management team and the wider Ovato family for their resilience and effort working through the changes and challenges this year has brought.

I also want to recognise our customers for their ongoing loyalty and support across all our businesses.

Finally, I want to thank you, our shareholders for your patience and support as we continue to evolve Ovato through the changing landscape of our industry.

The year ahead will undoubtedly continue to provide its share of challenges including strong competitive behaviours, such as very targeted and aggressive pricing. We are, however, well placed to meet these challenges with a transformed manufacturing cost base following the completion of the NSW site consolidation.

It is no exaggeration that I am as invested as any of you in seeing this business perform and provide a return to all shareholders. The focus of your board and management will continue to be set on this.

I will now invite Kevin Slaven, our CEO, to look ahead to the year to come.

Bringing our businesses together under the Ovato brand has driven efficiency and uncovered opportunity.

Ovato has begun FY20 with significant progress, much of which is the result of Kevin's clear-eyed vision and his team's tenacity in driving reconsideration of our brand and company as we build our business around our largest customers and their changing marketing needs.

Kevin, the floor is yours.

CEO's Address

[Kevin Slaven Slide]

Thank you, Michael.

[FY19 Key Achievements Slide]

Despite the various challenges and ultimately disappointing financial results last year, FY19 delivered plenty for us to be positive and encouraged by.

- We have brought energy and enthusiasm to the market by making the transition to Ovato. We continue to take complexity out of the hands of our customers and help them unlock the value our scale brings.
- The focus on our largest customers has been validated, as volumes and commitment to the retail catalogue channel remain strong.
- We have continually proven a positive Return on Investment for the catalogue and use this data to improve client performance, cementing the retail catalogue's place in our customers marketing mix.
- We have had some significant client wins, many of them combining the core capabilities of print and distribution. We have extended our existing print contract with the Woolworths Group, and have added residential distribution to the services we provide them. We have also extended our print relationship with Aldi to now include distribution of their catalogue to more than six million homes weekly.

[Safety Update Slide]

As Michael mentioned in his introduction, keeping people safe is a value at the core of our company. We ensure this value is brought to life with:

- Visible leadership.
- Eliminating repeat incidents.
- Health & Safety standards.
- Well-being.

These behaviours have been reinforced by an enterprise risk platform which was implemented at the start of this calendar year. This platform has improved our reporting and transparency of data, allowing us to better analyse performance, identify trends and enhance our safety strategy.

We track our improvement process through the TRIFR framework (total recordable injury frequency rate,) which is calculated by the number of injuries for every million hours worked.

This year, the TRIFR was 10.09, down from 14.23 the prior year which was ahead of our annual target reduction.

[Vision Slide]

This is the vision I presented to all our employees ahead of the rebrand to Ovato. I am 100% confident in this vision for our business and we have been proactive in implementing it.

We have become **smarter** by building new technologies to support our clients and our business. Our Advertising Production Suite, Mapping tools, Mobile passes and augmented reality for print are examples in this space.

We are **sustainable** because we have taken cost and complexity out of our manufacturing footprint with the consolidation in NSW and continuing our focus on operational efficiency across the company.

We are **delivering integrated marketing solutions** by removing the barriers between our group companies and taking complexity away from our clients. We have more combined print and distribution clients than ever before, including two of the largest supermarkets in Australia.

We are **turning audiences into customers** and we can prove it with transactional data that shows return on investment at up to 12 times for our largest retail customers, as measured by Quantum, our exclusive partners in the print channel and leaders in marketing science applied to media.

[Delivering against Strategy Slide]

Our strategy of focusing our efforts on our largest customers has been validated, with volumes and spend by Tier One Food & Beverage clients remaining in line with our expectations. We are also finding new opportunities with customers who turned away from print in search of better data and measurement and extending our relationships upstream to FMCG brand owners who sell through our traditional retail clients.

- We have come a long way in delivering against our first pillar. As I mentioned earlier, we have seen solid performance in our largest food and beverage clients, who now make up 37% of our revenue, up from 34% in FY17
- We are working with publishers in partnership. This has resulted in our being awarded the entirety of Bauer's print work in Australia. We are also expanding our relationships with the custom publishers like Medium Rare, who are driving change in the industry and are now responsible for the largest circulation magazines across our territories.
- We remain focused on operational efficiency. The consolidation of our sites in NSW is the best evidence of this.
- Distribution is key to our success. Being able to produce, print and deliver marketing materials into the hands of an audience is a unique proposition in the market, backed by a significant saving in freight for those customers who combine both print and distribution with us. When we merged, only a handful of smaller customers used both print and distribution. Today 57 companies trust us with the entirety of their retail marketing supply chain.

[Organisational Alignment Slide]

Internally, we are focused on our people. My talented executive team are leading change at tremendous scale across our business. I believe my role is best served by giving them both the challenge to take on tasks that are sometimes bold and difficult, and the support to enable them to use their skills and experience in the best way.



Julia Farrant, who joined the executive team last year has excelled in helping us to create the best structures for our business and has been leading her team in building out the framework for the values and culture that supports both our people and the plans we have as a business.

Julia's work builds on our decision to rebrand the company in February. Our shift to becoming Ovato has been a success. We used the strength of our internal teams wherever possible, only incurring external costs in the changes to physical signage across our unique national footprint in both Australia and New Zealand.

We have also made a significant addition to our leadership team with the creation of a Corporate Development role to continue to drive change and implement broad opportunities across our business.

[Innovations]

We have made significant investments in both data and bringing our Advertising Production Suite (APS) to market. The APS is our workflow and production management tool. This service-based software solution allows Ovato retail clients to manage the marketing process from conception through to design and delivery leveraging more than 20 years of evolution and experience we have gained in supporting client's through these processes.

We have also built on our understanding of the large sets of data we hold relating to the creative and distribution variations that exist making these both useful and accessible for our clients and our business. Working with Quantum has allowed us to enrich this data with perhaps the most useful retail response method that exists, the purchase behaviour of consumers. We have conducted historical studies that show defined increase in spend by audiences exposed to the catalogue by between four and eight percent, numbers that translate into a return of twelve times on spend for our largest clients. We can prove the return on an investment in catalogues and provide significant recommendations based on that data to drive an improved result.

[Key Priorities in FY20 slide]

Looking towards next year, there is much to keep us cautious. The slowing of retail and lower consumer confidence looks likely to deliver continued impacts on our retail client base. We are more prepared than we have ever been to help them make better informed decisions about their marketing spend and are able to support clients as marketing budgets and our client's businesses feel the pressure.

Our teams are focused on the challenges that lie ahead. We share a passion for the craft and capabilities that have defined our business over many decades. We have shown the benefit and impact our core channels bring, and we are amplifying our understanding of data and analytics to deliver value and insights to our clients. We are uniquely placed to build the next wave of retail marketing tactics and techniques with the largest retailers across Australia and New Zealand. We are ready for the challenge and excited about the change we will drive over the next year.

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[Thanks]

I want to finish off with a few thankyou's.

First, to you our shareholders for the understanding and patience you have shown as we make change at Ovato.

Second, to our board. For their support and guidance,

Most importantly to the members of our Ovato team. They are resilient and passionate about what we are building in this business. They have supported me, their executive team, and each other.

Thank you and I pass the floor back to Michael, our Chair.

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